Shropshire and Wrekin Fire and Rescue Authority
23 February 2022

Revenue Budget and Precept 2022/23

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 is presented to the Authority following its meeting on 16 February, where the proposed precept increase of 1.99% for 2022/23 was rejected. The report details the financial and operational implications of not increasing the precept for 2022/23, compared to the increase originally recommended to the Authority.

2 Recommendations

The Fire Authority is asked:

Either:

a) To approve a revenue budget for 2022/23 and a forward financial projection to 2024/25, as set out in section 5 of the report;

b) To approve a precept increase of 1.99%, and the recommendations set out in Appendix A;

c) To approve the revenue budget and pensions account, illustrated in Appendix B, for budgetary control in accordance with approved standing orders;

Or, if recommendations a, b and c are not approved:

d) To approve a revenue budget for 2022/23 and a forward financial projection to 2024/25, as set out in section 6 of the report, and

e) To approve a precept increase of 0%, and the recommendations set out in Appendix C, and

f) To approve the revenue budget and pensions account, illustrated in Appendix D, for budgetary control in accordance with approved standing orders;

And:

g) To approve the schedule of reserves at Appendix E;

h) To approve the Medium Term Financial Plan and Reserves Strategy 2022/23 to 2024/25, and

i) To delegate any necessary amendments to the revenue budget and the Medium Term Financial Plan to the Treasurer, in consultation with the Chair and the Vice Chair.

3 Background

The process for approving the revenue budget and setting the precept for 2022/23 began in November, when the Strategy and Resources Committee considered the base budget review, committed changes and pay and prices contingency. The process continued with further changes to the revenue budget, approval of the capital programme and outcome of the financial settlement and culminates in setting the precept by the end of February 2022.

Despite a recommendation from Strategy & Resources Committee in January 2022 that a precept increase of 1.99% should be approved, the increase was rejected by the Fire Authority on 16 February 2022, and a nil increase was favoured.

In order that a precept can be set for the coming financial year, members are asked to consider the original proposition of an increase of 1.99% (shown at section 5), and the medium term financial and operational implications of not increasing the precept for 2022/23 (shown at section 6), and make a decision based on the preferred approach, as laid out in the recommendations.

4 Developments reported to the Authority

The original paper taken to the Authority on 16 February 2022 informed members of the following developments:

- The provisional settlement was announced in December 2021, and the effect on total income following the announcement was an increase of £200,000. This related to a one-off Service Grant awarded for 2022/23
- Assumptions for strategic financial planning had been updated to better reflect the position following the last three single year settlements. Therefore, the Authority’s planning anticipated an increase in grant, rather than an expectation that grant would fall over the next few years. This shows a more favourable medium term position, but it is far from certain, as the Fair Funding Review has not yet been completed and the current financial climate is unstable.
- The assumption around precept increase remained at 1.99%; as well as taking into account the pay and rising inflationary pressures, this allowed for the funding of the capital programme and the necessary review and investment of the Service to ensure that no degradation of service occurs.
- Collection fund deficits and surpluses and Section 31 rates grants had been confirmed and this one-off net income was applied to the revenue budget.

The capital programme was approved at the meeting and associated debt charges added to the revenue budget.

Members also considered a growth item in the Training department. Due to a change in legislation, a significant increase of training time is required to ensure that Service drivers are compliant when exceeding the speed limit, and following consideration of several options, officers proposed that an additional training instructor is recruited to undertake this work.

Despite a recommendation from the Strategy & Resources Committee in January 2022 to increase precept by 1.99%, the Fire Authority were minded to freeze precept for 2022/23 and rejected the recommendation.

As it was not possible to approve a precept on 16 February 2022, members are now required to consider the two options detailed below and approve a precept for 2022/23.

5 Option 1 – Precept Increase of 1.99%

Precept income makes up more than 75% of the total income available to the Fire Authority, with the other 25% made up of government grants, business rates and collection fund balances.

The current Band D precept is £104.20, and a precept increase of 1.99% would raise this to £106.27 – this equates to £2.07 per year, or 4p per week. Band A households that pay council tax will see an increase of £1.38 per year, or 2.5p per week.

This increase would generate additional income of £350,000 per year for the Fire Authority, in each year from 2022/23.

The Service's pay budgets account for more than 75% of the total revenue budget, with operational and service costs making up the remaining budget. In broad terms, for each 1% of pay increase awarded and inflationary pressure, a precept increase of 1% is necessary to maintain current budgets. This always presents a challenge to the Service when pay increases are agreed in excess of the precept referendum spending limit.

In addition to the non-discretionary increases of pay and prices, review and investment of the Service is critical to maintain service delivery and avoid degradation. The Service Plan for 2022/23 will launch six strategic improvement reviews, covering the sustainability of the Service's on call service, the productivity and efficiency of the Service and how its resources are used, and how these are identified, measured and reported. The reviews are planned to run concurrently over the remaining 3 years of the Community Risk Management Plan (CRMP)

The six improvement reviews are:

On Call Sustainability Review

A total of 24 of the 29 fire appliances available in Shropshire rely on the on-call duty system to crew them. This system requires firefighters to commit to being within 5 minutes of their local fire station and being available to respond to emergencies for between 80 and 120 hours per week. This involves making a huge commitment to their local community's safety and relies on flexibility and good will.

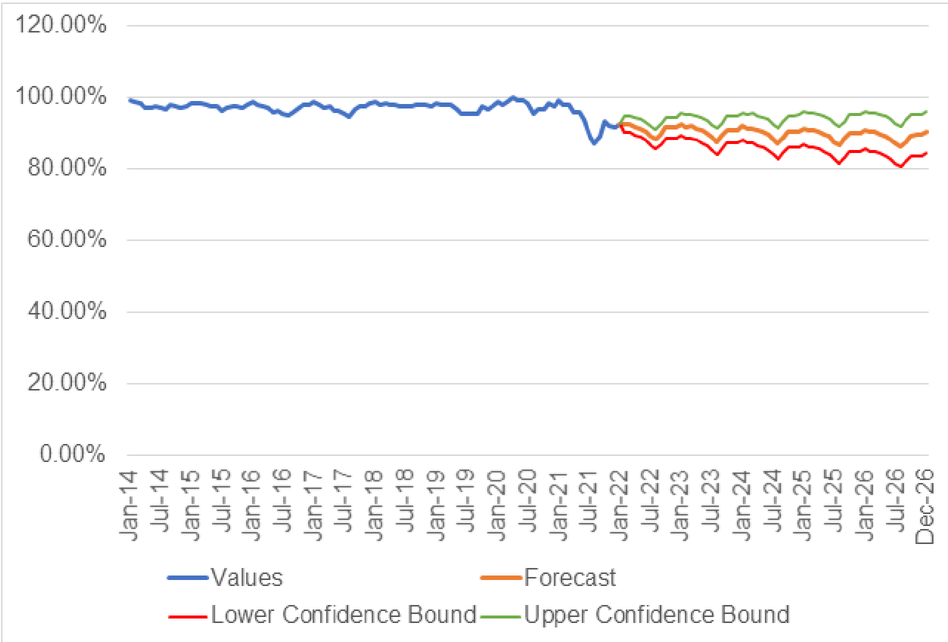
Shropshire has been able to be proud of having the highest performing on-call system in the country with an average availability of from line appliances of over 97%.

However, the challenges seen in other parts of the country are starting to show signs of being present in Shropshire too.

In 2017 turnover of on-call staff stood at 6.5%, steadily increasing to 12.3% in 2021. Recruitment has remained consistent but is increasingly unable to meet demand. Consequently, an increasing number of stations are running below establishment and "goodwill" is being stretched with an example of one firefighter providing over 160 hours of cover in one week – leaving less than 7 hours off call.

Calling on this level of "goodwill" is unsustainable and overall performance is already reducing with a projected "worst case" performance of 82%, should we do nothing.

Figure 1. (a) 5-Year forecast of availability based on 8 years of historical availability statistics

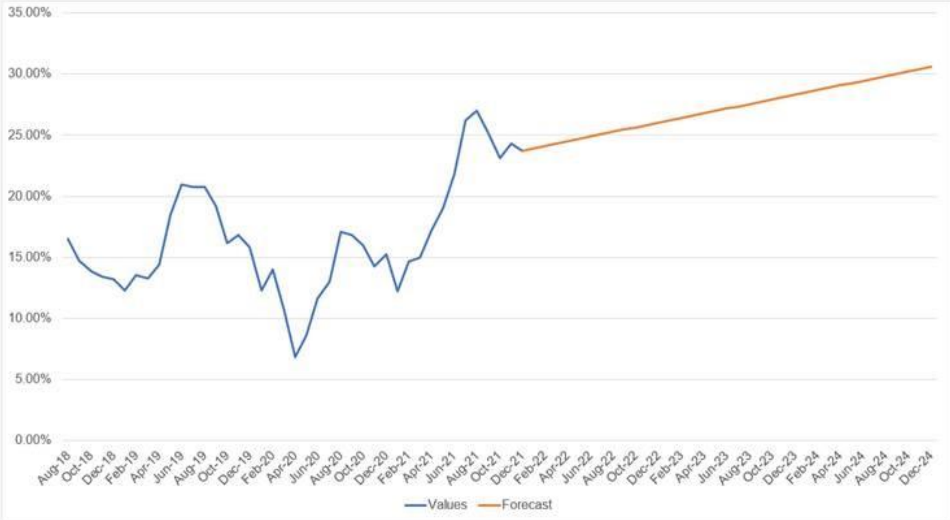


End of 5-year annual availability averages for the following:

- Lower confidence forecast = 82%
- Forecast = 88%
- Upper confidence forecast = 93%

The on-call review team has also analysed the amount of time that on-call crewing is at a minimum. While this still counts towards availability, and still falls within a safe scheme of work, it is an important factor to consider for organisational resilience and provides an early indicator of when and where overall availability will fall.

Figure 1. (b) 3-Year forecast of percentage of time crewing at minimum based on 3 years of historical availability statistics



Percentage of time crewing is at Minimum:

- 2019 – 17%
- 2020 – 13%
- 2021 – 21%

Therefore, it can be seen that the current on-call system needs to be overhauled if Shropshire is to continue to benefit from nationally leading levels of performance.

There are a number of factors being looked at within the review including greater flexibility of contracts, more opportunities for development and increased recruitment but pay also has an effect. While research indicates that pay is not the primary motivator for on-call firefighters it also shows that lack of pay works as a demotivator. Even before any further work is undertaken to design a more flexible contract it has become apparent that neighbouring fire and rescue services (FRS) pay their on-call firefighters an increased level of basic retainer of up between 7 and 26%. If we were to take the average to implement, this investment alone as a gesture of “levelling-up” would cost the Service at least £112k per year before any other more sophisticated methods of increasing fairness in our pay structure were introduced.

It should be recognised that the Service relies on the effectiveness of the on-call system and as such there is an ongoing imperative to make the role of on-call firefighter as attractive and fulfilling as possible. On-call should never be seen as a “cheap” alternative to other duty systems. It requires continual investment, support, and development to be successful.

Efficiency and Productivity Review

The Service undertook an efficiency review at the beginning of the period of austerity titled “Public Value” (2011-2015). This yielded a £3m saving over 4 years and, alongside a prudent precept strategy, ensured the Service has been adequately funded over the last 10 years without suffering from the same budgetary pressures of many other fire and rescue services.

The Government have now set Fire and Rescue Services in England an objective of achieving a 2% efficiency target against non-pay budgets. The Government have been clear that it is not expected for this to be achieved through a reduction in frontline staff, and the resultant savings should be reinvested. This is seen in the context of mitigating the effects for a precept referendum limit of 1.99% when inflation is likely to be above this level.

The Service expect to achieve a saving under this banner in the region of £150,000 by the end of this review period

Operational Technology Review

The "Ops-tech" review is designed to exploit technology such as drones, body worn cameras, video feeds, telemetry and thermal imaging over mobile networks to provide increased intelligence flows and enable improvements in firefighter safety and operational command effectiveness. One obvious benefit will be the ability to undertake a remote command function. This will help overcome the risk of a "command-gap" while awaiting the arrival on scene of a higher-level commander and provide a platform for tactical and strategic command at larger or more complex incidents.

This is particularly important for a rural area such as Shropshire with a large geographical footprint.

When using cloud computing a general rule is that any investment in hardware carries on-going licensing costs that are in the approximate ratio of 40% hardware and 60% licensing cost. However, in initiatives of this type, after initial start-up costs, both hardware and software become revenue costs. It is difficult to calculate this early in the project what these coats might be, but it would not be unreasonable to budget for up to £250k as the project evolves.

Operational Resource Review

The Operational Resource review will consider both our specialist capability including off road, working at height and water. The purpose of this is to ensure we have the most effective, efficient, and economical capabilities to meet the risks identified in the CRMP. It is anticipated there will be some reductions in capital needs, but it will also require additional investment in other areas.

The review will also assess where reductions in operational capability might be made, should budgetary restrictions require them, and which might have the least detrimental effect on risk.

Performance and Improvement Review

The purpose of this review is to restructure the IT, Performance, and Service Improvement departments to work together more cohesively in a way that effectively supports intelligence led decision making and systems improvement. External consultant support has been procured to independently undertake the initial stages of the review and suggest a proposed structure that has the right competencies and capacity to meet service needs into the medium/longer term. This is in part in recognition of an area for improvement identified by the HMICFRS.

Early indications already show a lack of analytical capacity which hinders the Service in being able to easily identify and react effectively to risk patterns. The market rate for a qualified analyst is currently circa £65k pa including on-costs.

Alliance Command, Control and Mobilisation

The Service is now 2 years into a collaborative project with Hereford & Worcester Fire and Rescue Service to collaboratively design a command-and-control function that allows both Services to operate autonomously but be able to combine in periods of crisis or spate to rapidly increase capacity and resilience. The project is currently specifying a joint command and control system with phased implementation timetable to coincide with the Telford renewal project.

Other Development Areas

Additionally, the Authority has been made aware of the pressing need for growth in the Driver Training section to overcome an increased training burden caused by changes in legislation.

The Service will also need to continue to increase capacity in the Protection Department as the new burdens brought about by the learning from the Grenfell tragedy and the Building Safety Review. This includes a legislative requirement to support with the Multi-Disciplinary Team that will manage the development of all new high-rise and high-risk buildings. A mixture of government grants and transformation reserves will be used to pilot methods for doing this in 2022/23 but it is reasonable to anticipate growth in Protection of at least one further post in 2023/24.

The Service is successfully building a strong collaboration with both Shropshire and Telford & Wrekin Councils to share confidential information to support Prevention activity. This allows the Service to target safe and well checks more accurately to the most vulnerable members of our communities. Other services have been heavily criticised for not being able to do this by the HMICFRS. Up until this point the Service has managed the administration burden of undertaking this data sharing and analysis within existing resources but, as the collaboration becomes more established and the volume of data grows, this will also need additional resource. Again, this has been managed up to this point within the existing financial envelope, but it will need to be put on a structural footing moving into 2023/4.

The Service is, as part of the Fire Alliance and in collaboration with West Mercia Police, working on a process of accreditation to ensure Fire Investigators continue to be able to act as expert witnesses and provide evidence to court in arson cases. This is not a statutory duty for FRS but is recognised as of benefit to the community and organisational learning. The potential ongoing cost of achieving and maintaining this accreditation is £150k.

The Service Is also currently undertaking a major replacement of personal protective equipment brought about by a change in the British Standard that requires all fire kit to be replaced at 10 years. Early feedback from users is that the current provision should be changed from a single “do it all” set of fire kit to two sets; one of which will more effectively protect against the extreme temperatures encountered in compartment firefighting and the other more able to deal with heat stress in operations such as road traffic collisions, search and rescue, and wildland firefighting. It is not clear at this stage whether new equipment should be provided through a capital purchase or a managed contract. This will be determined based on which method is the most reliable, resilient and efficient.

Funding for the Reviews

The Strategy and Resources Committee recommended to the Authority that £200,000 was added to the Service Transformation Board Staff Reserve in 2022/23, to provide capacity to ensure that the reviews detailed above are adequately resourced.

The Strategy and Resources Committee also recommended to the Authority that an initial investment of £150,000 was factored into the revenue budget from 2023/24, with a further £150,000 from 2024/25. This could be flexed in line with future finance settlements. It has only been possible to add £300k to cover the ongoing costs for all of these investments, including salary, equipment and debt charges associated with the capital programme.

If precept were increased by 1.99%, the financial position for 2022/23 and into the medium term is summarised as follows:

	2022/23 £000	**2023/24 £000**	**2024/25 £000**
Expenditure:			
Budget	24,228	24,967	25,847
Surplus / -deficit	182	-229	-190
Total	**24,410**	**24,738**	**25,657**
Funded by:			
Grant and business rates	6,288	6,117	6,213
Business rates collection fund	-311	-25	-
Council tax	18,012	18,714	19,444
Council tax collection fund	421	-68	-
Total	**24,410**	**24,738**	**25,657**

Despite an annual increase in precept of 1.99% from 2022/23, expenditure exceeds income in the later years of the planning period. Reductions in spending would be required to cover these deficits. To facilitate this, reviews within the Service and the National Fire Chiefs Council (NFCC) will provide a framework for officers to identify, monitor and report efficiency gains and increases in productivity.

Some efficiencies were identified during the base budget review that was reported to Strategy and Resources Committee in November 2021. The way in which capital funding was structured has been revised and as a result, £100,000 was removed from the budgets for interest and minimum revenue provision. This balance was then used to fund increases in operational budgets.

Budget Consultation Exercise

The Service's Communications Team worked with officers to provide a full comprehensive consultation for the Authority's proposed precept increase of 1.99%. This included press releases, social media posts with links to the full release and an online poll.

The consultation process proved successful with over 10,000 interactions, more than four times as many views as in the previous year, and received an overwhelmingly positive response, with 91% of poll participants in favour of the precept increase.

6 Option 2 – No Precept Increase

The Fire Authority considered the effects of a precept freeze in the early 2010s when the Government offered one off grant in lieu of an increase. There was recognition that the base budget should be protected to ensure the long-term resilience of the Service, and this approach has proved to be successful for a number of years. The Authority's precept strategy has been accepted by inspections and audits and proves to be an effective element in the strategic planning process.

A nil increase in the precept for 2022/23 means that £350,000 in income will be lost in each year going forward. As detailed in section 5, this income is central to maintaining service delivery, as pay awards and inflationary pressures are non-discretionary costs which must be found before any investment, growth or improvement can be considered.

If the Authority were to approve a precept increase of 2% or higher, it would be required to hold a referendum to gain public approval for the increase. This would incur high one-off costs of around £700,000 and considerable administrative burden, with no guarantee of a favourable outcome. Therefore, the constraint of a precept referendum spending limit of less than 2% already hinders the Authority's ability to fund pay awards and inflation above this level.

The recent consultation process held to gauge public opinion on the Authority's proposed precept increase of 1.99% was overwhelmingly positive, with many comments supporting the modest increase of £2 per year. The consultation did not include an option for a freeze in precept.

Core Spending Power is a measure of the resources available to local authorities to fund service delivery. It sets out the money that has been made available to local authorities through the Local Government Finance Settlement. The Core Spending Power calculations assume that "local authorities increase their Band D council tax in line with the maximum allowable level set out by the council tax referendum principles for 2022-23".

The Authority has supported lobbying by the Home Office and NFCC to introduce a precept increase of up to £5 for the Fire sector and has recognised the benefits and stability that this would afford to the resilience of the Service. A decision to reject an increase in line with the current much lower referendum limit would appear contradictory to this support.

If precept were frozen, the financial position for 2022/23 and into the medium term is summarised as follows:

	2022/23 £000	2023/24 £000	2024/25 £000
Expenditure:			
Budget	24,228	24,967	25,847
Surplus / -deficit	-169	-594	-569
Total	**24,059**	**24,373**	**25,278**
Funded by:			
Grant and business rates	6,288	6,117	6,213
Business rates collection fund	-311	-25	-
Council tax	17,661	18,349	19,065
Council tax collection fund	421	-68	-
Total	**24,059**	**24,373**	**25,278**

As stated in section 5, an increase in precept of 1.99% would see the revenue budget in balance, with a small surplus, in 2022/23, but there are deficits in later years. The Authority must consider how these deficits would be found, and the ongoing search for efficiencies is key to this. Officers must identify ways in which Service spending can become more efficient and effective, or review changes in service delivery to reduce costs.

The deficits created by freezing precept for 2022/23 are structural in nature and are much more difficult to manage. The ability to review current service delivery will be reduced through lack of capacity for the work to be undertaken, and it will be necessary for improvements or essential growth to be introduced at the detriment of another part of the Service.

It should be clear that a lack of investment in the Service will lead to degradation, rather than maintaining current performance levels.

If the Service were to be subject to the potential deficits identified above, then one or more of the following changes would need to be made to mitigate the effect of the reduction in budget

On Call Sustainability Review – Leave the retaining fee at its current levels and do not invest in any contractual changes that increase costs. The risk associated with this action is that availability continues to erode at its current levels. Unfortunately, some stations are more vulnerable to reducing staff numbers and at 80% significant holes would open up in the fire cover matrix having a disproportionate effect in Shropshire's more rural communities.

Ops-Tech Review – The project could be cancelled, or implementation could be slowed down to match budget recovery in 4 to 5 years. This will set the service a challenge in finding other ways of closing the command gap and protecting firefighters with richer information and a robust evidence trail.

Operational Resource Review – This review should always have a focus on economy as well as efficiency, but a budget deficit will place a firmer focus on economy when undertaking equipment replacement

Other areas of development such as Protection, Prevention and Fire Investigation would also need to be considered in order to manage the deficit as would the scale of ambition in areas such as replacement fire-kit.

With regards to operational capacity, it should be recognised that while pay-rises for all staff are set by national negotiations and are not discretionary, the number of people on the establishment is.

Experience from other FRS shows that where organisations encounter a significant financial deficit, and salaries make up most of the budget, then the only effective solution is to reduce employee numbers. The resource review will identify where this reduction can be made with the least amount of impact on risk; but any reduction from current levels will have an effect on operational resilience and a consequent increase in risk.

7 Conclusions

The Fire Authority's medium term financial planning and precept strategy has proved successful over the last ten years. Members have recognised the importance of protecting the base budget into the medium term and using the funding opportunities made available by government to maintain financial resilience. Council tax freeze grants have been rejected in favour of regular income into the future.

These strategies have enabled the Authority to weather austerity and to invest in its assets, by building reserves to fund new buildings, vehicles, and equipment, thereby reducing debt charges into the future. It is worthy of note that the current Telford re-development has been financed from reserves built up through prudent financial planning. The effect of this strategy has been to reduce borrowing costs in the long term.

Over the next four years other areas of the Service will require capacity for review, to look for more efficient ways of funding our resources, and more effective ways of using them. Therefore, a lack of investment will lead to a degradation of service delivery as performance levels cannot be maintained.

As there has been no change in the medium term planning principles or the precept strategy of the Authority, it is recommended that a precept increase of 1.99% is approved for 2022/23, in line with council tax referendum limits.

8 Capacity

The capacity impacts of a freeze in precept for 2022/23 are contained within the report.

9 Fire Alliance / Collaboration / Partnership Working

The Fire Alliance with Hereford and Worcester FRS will continue to deliver efficiencies, but the primary intent of the Alliance is to build capacity and resilience for both organisations.

10 Financial Implications

The financial implications are contained within the report.

11 Legal Comment

The Fire Authority must set its precept and inform its billing authorities of the amount by 1 March. Any delay to this process will lead to significant costs being incurred by the billing authorities who would have to recalculate once the information was provided.

12 Community Safety

Potential Community Safety impacts are included in the report.

13 Environmental

There are no direct environmental impacts arising from this report other than a potential reduced ability to invest in environmental schemes.

14 Equality Impact Assessment

Equality or diversity implications that arise following the decisions taken in this report will be considered as analysis is undertaken.

15 Health and Safety

Health and safety impacts are included in the report

16 Fire Standard Core Code of Ethics and Human Rights (including Data Protection)

There are no impacts on compliance with the Fire Standards Core Code of Ethics or human rights arising from this report.

17 ICT

ICT impacts are included in the report

18 Insurance

There are no insurance impacts arising from this report.

17 The On-call Service

Impacts on the on-call service are included in the report

18 Service Delivery

Service delivery impacts are included in the report

19 Reputation

Reputational impacts are implicit within the report.

20 Security

There are no security impacts arising from this report.

21 Training

Training impacts ae included in the report.

22 Appendix / Appendices (delete as appropriate)

Appendix A
Revenue Budget: 2022/23 Precept (1.99%)

Appendix B
Revenue Budget 2022/23 and Pensions Account

Appendix C
Revenue Budget: 2022/23 Precept (0%)

Appendix D
Revenue Budget 2022/23 and Pensions Account

Appendix E
Budget for Reserves

Appendix F
Draft Medium Term Financial Plan and Reserves Strategy 2022/23 to 2024/25

23 Background Papers

Shropshire and Wrekin Fire and Rescue Authority
16 February 2022, Paper 9 - Revenue Budget 2022/23

Revenue Budget: 2022/23 Precept

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 seeks Fire Authority approval to:

- A budget for 2022/23;
- Council Tax levels for 2022/23; and
- Precepts on billing authorities and related matters.

The Authority is required to issue a precept before 1 March 2022 and all items in the "Recommendations" below must be taken together. For ease of reference the key elements of the budget are set out in appendices to this report.

2 Recommendations

The Fire Authority is asked to:

a) Approve that a net budget requirement is set at £24,410,522 (calculated in accordance with the provisions of Section 42a of the Local Government Finance Act 1992);

b) Approve a total precept of £18,012,202 to be levied on the billing authorities;

c) Approve a Council Tax, resulting in a basic amount of Council Tax at Band D calculated in accordance with the provisions of the 1992 Act (Section 42b) of £106.27;

d) Approve, under Section 47 of the 1992 Act:

a. The amount of Council Tax calculated for each category of dwelling in each billing authority's area, as follows:

Band	**2022/2023 Council Tax** £ p
A	70.85
B	82.65
C	94.46
D	106.27
E	129.89
F	153.50
G	177.12
H	212.54

b. The amount calculated (in accordance with Section 48 of the 1992 Act) as payable by billing authorities for 2022/23, as follows:

Council	**Precept £**
Shropshire Council	12,272,631
Borough of Telford & Wrekin Council	5,739,571
	18,012,202

e) Approve that the Treasurer:

i Issue the necessary precepts and information to the billing authorities in accordance with the provisions of Chapter IV of Part 1 of the 1992 Act and be authorised to make any amendment to the above to reflect the final approved budget, after consultation with the Chair and Vice-Chair of the Fire Authority; and

ii Is authorised to make payments required from, and to, reserves and provisions within the approved budget strategy and within the Authority's Financial Regulations, in conjunction with the Chair and Vice-Chair;

f) Approve the revenue budget and pensions account, illustrated in Appendix B, for budgetary control in accordance with approved standing orders, and

g) Approve the schedule of reserves and provisions at Appendix E

3 Budget Process

The Fire Authority’s net spending (budget) for services in 2022/23 has been reported throughout November 2021 to January 2022. The budget is set out in Appendix B and is reported in the Fire Authority’s service areas.

The funds receivable in the form of revenue support grant and s31 grants, business rates and top-up payments is £6,288,494. The Fire Authority’s share of the council tax collection fund surpluses totals £420,936, and its share of deficits of the business rates collection funds is £311,110. A council tax base equivalent to 169,494.63 Band D properties has been notified to the Fire Authority by the billing authorities.

Revenue Budget 2022/23 and Pensions Account

Revenue Budget 2022/23 Key Service Areas	**Pay £000**	**Other £000**	**Total £000**
Executive and Resources			
Executive and Resources Pay	1,313		1,313
Executive		98	98
Finance		1,242	1,242
Technical Services		2,007	2,007
Workshops		227	227
Pay and Price Contingency		898	898
<u>**Total Executive**</u>	1,313	4,472	5,785
Service Delivery			
Service Delivery Pay	14,496		14,496
Fire Prevention		50	50
Area Command		5	5
Operational Response		20	20
Training		164	164
Health and Safety		4	4
<u>**Total Service Delivery**</u>	14,496	243	14,739
Corporate Support			
Corporate Support Pay	1,482		1,482
Information and Communications Technology		1,463	1,463
Programme Office		10	10
Corporate Support		487	487
Human Resources		307	307
Development		137	137
<u>**Total Corporate Support**</u>	1,482	2,404	3,886
Total Revenue Budget	17,291	7,119	24,410

For the purposes of Financial Standing Orders, revenue votes are described in **bold** print and <u>underlined</u>.

	Estimate 2022/23
PENSIONS ACCOUNT	£000
Contributions	
Employer contributions – 1992 scheme	0
Employer contributions – 2006 scheme	0
Employer contributions – 2006 modified scheme	0
Employer contributions – 2015 scheme	2,556
Employee contributions – 1992 scheme	0
Employee contributions – 2006 scheme	0
Employee contributions – 2006 modified scheme	0
Employee contributions – 2015 scheme	1,128
Ill-health charges	120
Inward transfers from other pension schemes	0
Total contributions	3,804
Costs	
Pensions outgo	-6,204
Total deficit to be funded by top-up grant	**-2,400**

Revenue Budget: 2022/23 Precept

Report of the Treasurer

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1 Purpose of Report

This report seeks Fire Authority approval to:

- A budget for 2022/23;
- Council Tax levels for 2022/23; and
- Precepts on billing authorities and related matters.

The Authority is required to issue a precept before 1 March 2022 and all items in the "Recommendations" below must be taken together. For ease of reference the key elements of the budget are set out in appendices to this report.

2 Recommendations

The Fire Authority is asked to:

a) Approve that a net budget requirement is set at £24,059,660 (calculated in accordance with the provisions of Section 42a of the Local Government Finance Act 1992);

b) Approve a total precept of £17,661,341 to be levied on the billing authorities;

c) Approve a Council Tax, resulting in a basic amount of Council Tax at Band D calculated in accordance with the provisions of the 1992 Act (Section 42b) of £104.20;

d) Approve, under Section 47 of the 1992 Act:

a. The amount of Council Tax calculated for each category of dwelling in each billing authority's area, as follows:

Band	**2022/2023 Council Tax** £ p
A	69.47
B	81.04
C	92.62
D	104.20
E	127.36
F	150.51
G	173.67
H	208.40

b. The amount calculated (in accordance with Section 48 of the 1992 Act) as payable by billing authorities for 2022/23, as follows:

Council	**Precept** **£**
Shropshire Council	12,033,571
Borough of Telford & Wrekin Council	5,627,769
	17,661,340

e) Approve that the Treasurer:

i Issue the necessary precepts and information to the billing authorities in accordance with the provisions of Chapter IV of Part 1 of the 1992 Act and be authorised to make any amendment to the above to reflect the final approved budget, after consultation with the Chair and Vice-Chair of the Fire Authority; and

ii Is authorised to make payments required from, and to, reserves and provisions within the approved budget strategy and within the Authority's Financial Regulations, in conjunction with the Chair and Vice-Chair;

f) Approve the revenue budget and pensions account, illustrated in Appendix D, for budgetary control in accordance with approved standing orders, and

g) Approve the schedule of reserves and provisions at Appendix E

3 Budget Process

The Fire Authority’s net spending (budget) for services in 2022/23 has been reported throughout November 2021 to January 2022. The budget is set out in Appendix D and is reported in the Fire Authority’s service areas.

The funds receivable in the form of revenue support grant and s31 grants, business rates and top-up payments is £6,288,494. The Fire Authority’s share of the council tax collection fund surpluses totals £420,936, and its share of deficits of the business rates collection funds is £311,110. A council tax base equivalent to 169,494.63 Band D properties has been notified to the Fire Authority by the billing authorities.

Revenue Budget 2022/23 and Pensions Account

Revenue Budget 2022/23 Key Service Areas	**Pay £000**	**Other £000**	**Total £000**
Executive and Resources			
Executive and Resources Pay	1,313		1,313
Executive		98	98
Finance		891	891
Technical Services		2,007	2,007
Workshops		227	227
Pay and Price Contingency		898	898
<u>Total Executive</u>	1,313	4,121	5,434
Service Delivery			
Service Delivery Pay	14,496		14,496
Fire Prevention		50	50
Area Command		5	5
Operational Response		20	20
Training		164	164
Health and Safety		4	4
<u>Total Service Delivery</u>	14,496	243	14,739
Corporate Support			
Corporate Support Pay	1,482		1,482
Information and Communications Technology		1,463	1,463
Programme Office		10	10
Corporate Support		487	487
Human Resources		307	307
Development		137	137
<u>Total Corporate Support</u>	1,482	2,404	3,886
Total Revenue Budget	17,291	6,768	24,059

For the purposes of Financial Standing Orders, revenue votes are described in **bold** print and <u>underlined</u>.

	Estimate 2022/23
<u>PENSIONS ACCOUNT</u>	£000
<u>Contributions</u>	
Employer contributions – 1992 scheme	0
Employer contributions – 2006 scheme	0
Employer contributions – 2006 modified scheme	0
Employer contributions – 2015 scheme	2,556
Employee contributions – 1992 scheme	0
Employee contributions – 2006 scheme	0
Employee contributions – 2006 modified scheme	0
Employee contributions – 2015 scheme	1,128
Ill-health charges	120
Inward transfers from other pension schemes	0
Total contributions	3,804
<u>Costs</u>	
Pensions outgo	-6,204
Total deficit to be funded by top-up grant	**-2,400**

Budget for Reserves

	Balance 01/04/22 £000	Spend £000	Income £000	Balance 31/03/23 £000	Spend £000	Income £000	Balance 31/03/24 £000
General	577	0	0	577	0	0	577
Earmarked Capital	0	0	0	0	0	0	0
Major Projects	4,938	-4,938	0	0	0	0	0
Extreme Incidents	334	0	0	334	0	0	334
Pensions and Other Staff Matters	675	-50	0	625	-50	0	575
Information and Communications Technology (ICT)	1,029	-250	0	779	-250	0	529
Income Volatility	687	0	0	687	0	0	687
Service Transformation Programme Staff	159	-300	200	59	-59	0	0
Service Delivery	156	-20	0	136	-20	0	116
Building Maintenance	262	-50	0	212	-50	0	162
Operational Equipment	116	-50	0	66	-50	0	16
Training	87	-30		57	-30	0	27
Total	**9,020**	**-5,688**	**200**	**3,532**	**-509**	**0**	**3,023**

Shropshire and Wrekin Fire and Rescue Authority

Medium Term Financial Planning 2021/22 to 2024/25

Context

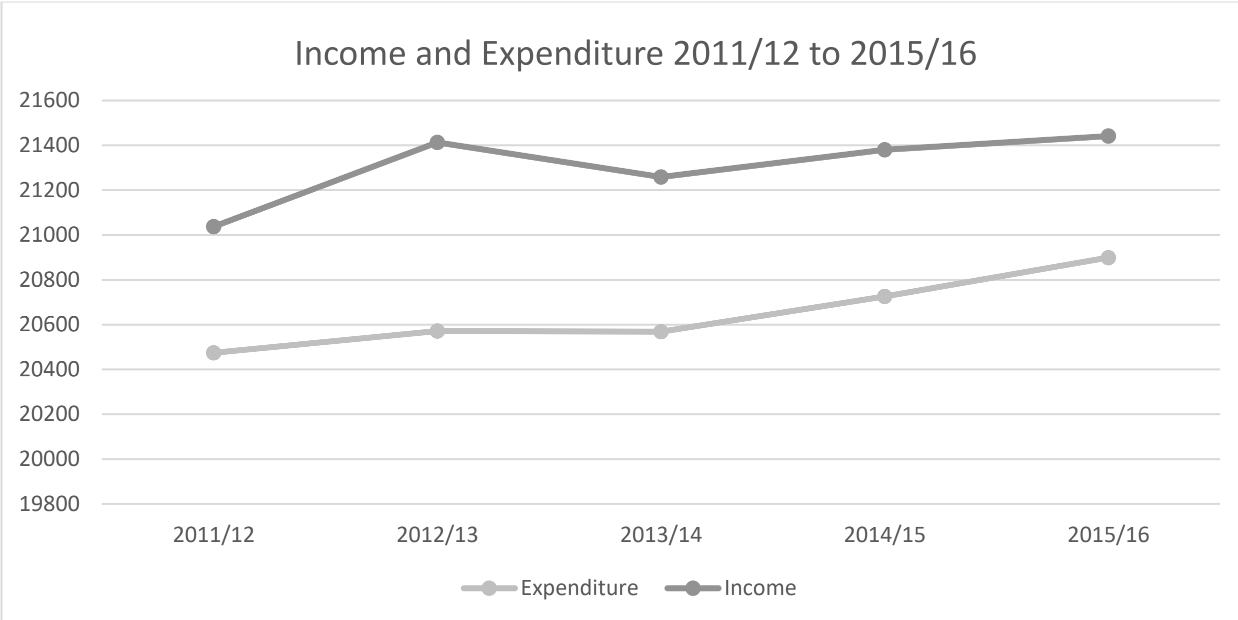
The Fire Authority has been successful over the last eight years, during a period of major public spending cuts, in identifying and implementing revenue budget reductions. Effective financial planning has successfully combined revenue budget cuts, a long term precept strategy, and effective use of reserves and surplus funds to avoid borrowing costs for future tax payers.

It is important to recognise how the Authority's strategic planning and change programme over the last eight years has contributed to its current financial position, and how crucial its ability to produce timely and meaningful forecasts will be in future planning cycles.

Shropshire and Wrekin Fire Authority suffered large reductions in its grant income in the previous Spending Review and subsequent Finance Settlement. A change in risk factors within its needs assessment led to grant reductions of 9.5% in 2011/12 and 3.4% in 2012/13, the highest percentage reduction over these two years. The Authority realised that major budget reductions were crucial to ensure that service delivery to the public of Shropshire did not suffer and embarked upon a major consultation and cost cutting exercise, which was named Public Value. This exercise involved staff from every station and every department throughout the county. Staff and members worked side by side to identify where budget reductions could be made.

This programme of reductions began in 2011/12 and over the four year Spending Review period, over £3million was cut from a revenue budget of £21million.

Throughout this four year period of cost cutting, the employee retirement profile was used to identify the most opportune time to remove posts from the establishment. During the process, these posts were at times removed before the budget reduction was required, avoiding future redundancy costs and the detrimental impact on staff, but resulting in a surplus on the revenue budget. This surplus was used to fund capital schemes, for example the replacement of fire appliances and specialist vehicles, and investment in IT infrastructure and training facilities and funds were also added to reserves to support future revenue reductions, in areas such as operational equipment, training and pensions.



The Authority also took the opportunity to use some of the surplus to prepare the Service for the worsening financial position of the economy and introduced the Service Transformation Programme (STP). The STP was a high level programme of activities, reviews and projects established in 2012/13, to ensure that the Service was best placed to meet the challenges it faced in the coming years. These included process re-engineering and deployment of technical solutions to reduce the burden attached to some processes.

The next stage

Despite the reductions to the Authority's revenue budget and a direction from members to increase council tax by just below the referendum spending limit, long term forecasts still predicted a deficit by the end of the planning period. Therefore, the Authority was required to identify further savings in order to meet the deficit and protect the Service.

A further consultation was undertaken as part of the Integrated Risk Management Plan (IRMP) to review possible reductions over the next Spending Review period to 2019/20.

It was possible for some of the savings identified to be realised in the revenue budget in the earlier years, and as a result, a further £300k was saved in 2015/16.

The main projects from the IRMP review involved the development and implementation of major changes to shift patterns and working practices on operational watches and in Fire Control. These two projects have required extensive consultation and negotiation, and savings of around £450k were achieved by 2020. As this change came into effect the additional capacity was used to support change management.

Spending Review 2016/17 to 2019/20

Work continued on the projects and activities within the Service Transformation Programme, with the majority of the projects modernising and strengthening the Service's IT infrastructure and systems. The focus was very much on improving the systems available to staff, both operational and support, and introducing new ways of working across the organisation. These improvements began to generate non cashable efficiencies in terms of officer hours and days being reinvested into more effective working practices. The Service has recognised that these non cashable efficiencies have the potential to translate into real staff savings over the coming years.

The work undertaken by officers of the Service and members of the Authority contributed to its stable position. A long term view was taken of the financial position of the Authority and this influenced current decision making. In terms of strategy, the Authority directed officers to model precept increases of 0.5% for the three years to 2019/20. Announcements on firefighter pay awards introduced more cost pressure, however this was accommodated by increasing precept increases but remaining within referendum limits.

However, the identification of efficiencies has always been an integral part of the Authority's budget setting process, and this approach will continue, particularly in the changing financial landscape.

From 5 January 2016, ministerial responsibility for Fire and Rescue Services was transferred from the Department of Communities and Local Government (DCLG) to the Home Office, in order to support a radical transformation of how police and fire and rescue services work together. Although DCLG published the finance settlement in February 2016, responsibility for Fire budgets moved to the Home Office on 1 April 2016.

Local authorities were issued with a provisional four year settlement which covered the financial years 2016/17 to 2019/20 and were told that these settlements would be confirmed over the period, if Efficiency Plans covering the same period were produced and submitted to the Home Office. Following the acceptance of its Efficiency Plan in February 2017, the Authority had a degree of financial certainty in its planning process for the planning period.

The Authority is committed to delivering a fire and rescue service that provides value for money and enhances public safety, and to this end, has collaborated with Hereford and Worcestershire Fire Authority to form a strategic alliance. This provides the advantages associated with large organisations without losing the agility of being two small, lean and community focused fire and rescue services.

Prior to 2019, this arrangement had been informal in nature, however it was recognised that a formal alliance has the potential to deliver benefits from aligning processes and procedures and sharing resources, expertise and experience. Officers of both services have developed a plan to form a long and sustainable strategic alliance that will increase capacity and resilience into the next decade.

Financial Year 2019/20

The financial year 2019/20 was the last in the Government's four year settlement, with actual grant paid as anticipated, and Rural Services Delivery Grant held at 2018/19 levels.

Fire Pension Scheme Revaluation

In the second half of 2018, the results of the 2016 valuation of public service pension schemes, and the effect on the revenue budget from 2019/20, were announced.

The two main reasons for the valuation were:

- To measure certain costs of the schemes 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, funds in are expected to meet the full cost of pension benefits being earned, including past service effects.

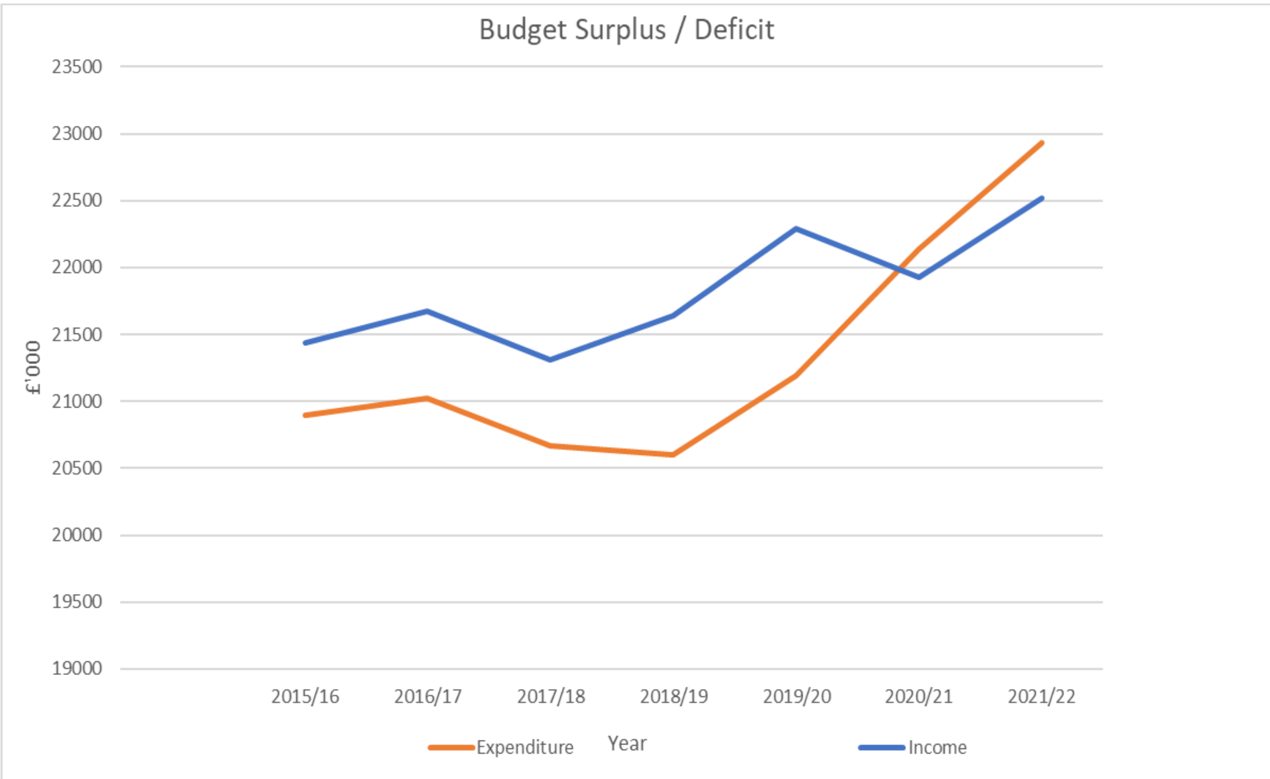
These two factors affected the valuation of the Fire schemes in the following ways:

- The employer cost cap was breached and an increase in employer contributions was required to ensure that scheme liabilities were being covered.
- A notional pot of assets is used to calculate the appropriate level of contributions to be paid into the scheme to meet the cost of accruing benefits; the SCAPE rate used in the calculation to determine the future value of money was reduced, and this had a large impact on the increases required to employer contribution rates.

The 2016 valuation resulted in the average employer contribution rate across the Fire Pension Schemes being increased from 17.6% to 30.2% from 1 April 2019.

The Treasury provided additional grants of £115m across the sector to support fire and rescue authorities with these unexpected pressures in the first year, with costs in future years to be taken into consideration as part of next Comprehensive Spending Review.

The position of the Authority's revenue budget and future planning at the end of the Spending Review period 2016 to 2020 is shown in the graph below. Large increases in employer pension contributions would be partly offset by IRMP savings on shift patterns, but the remaining pressure of borrowing for future capital schemes, including the major development at Telford, showed that contributions or savings would have to be introduced in order to set a balanced budget.



Spending Round 2020/21

On 4 September 2019, the Chancellor of the Exchequer delivered a speech outlining the Spending Round for 2020/21. Pressures around the United Kingdom's exit from the European Union meant that the Comprehensive Spending Review for 2020/21 was delayed, therefore a one year settlement had been undertaken.

The Chancellor announced that no government department would be cut in 2020/21, and that funding would be increased by at least inflation. It proved difficult to determine either the impact of the one year settlement on the Fire sector, or the possible settlements in place for the future years.

In order the test the Authority's financial resilience and ability to adapt to changing conditions, a number of scenarios were developed to test the sensitivity to changes in planning assumptions. These were carried out on a settlement based on that of 2019/20 with inflation, with modelling for later years exemplifying the effects of revenue support grant ending in 2023/24 or 2024/25, and varying pay awards and precept increases.

The scenarios enabled members to assess the impact of the current and possible future financial settlements and to set its precept strategy.

Given the ongoing uncertainty surrounding the mid to late years of the planning period, members were again advised to approve a budget for 2020/21, and task officers to update scenario planning as and when more details on future years became available.

Following consideration of the options presented, members approved a revenue budget for 2020/21 and a precept increase of £2.00 per year, or 1.99%.

In terms of medium term financial planning, members were advised that the assumptions upon which budget planning has been based have been carefully considered to ensure that they reflect the best estimated outcomes for the Fire Authority. Whilst it is important to remain prudent and show the impact of the worst outcomes, and ensure that plans are being thought out to deal with this scenario, there is still a great deal of uncertainty into the medium term. The Comprehensive Spending Review and Fair Funding Review is due to be carried out during 2020, and funding around increases in pension contributions is also undetermined.

In addition there is scope for the revenue consequences of the capital programme to be reduced; a number of the schemes on the programme have been included as outcomes following operational reviews, and these may be less substantial once the reviews have been carried out and more information becomes available.

Given the uncertainties around funding and the opportunity to reduce costs into the medium term, members were advised to note the deficits predicted in future years and task officers to inform the Authority as more information becomes available.

The Service and the Covid 19 Pandemic

The current Covid 19 pandemic began to affect most countries in the world during the first quarter of 2020 and the United Kingdom went into lockdown in March 2020. Since notification and awareness of the pandemic, the Service has undertaken significant work to ensure it is best placed to continue to deliver its services and support partners to mitigate the impacts of Covid 19 upon its communities.

The immediate financial impact of the pandemic on the Service was mitigated by a number of initiatives made available by the government:

- Government grants were paid to local authorities early to ensure that funds were available for continuation of service.
- Grants of £445,000 were paid to the Fire Authority for Covid 19 related expenditure.

General and Income Volatility Reserves were also available for use if funds in excess of grant provision were required.

However, the medium to long term impact of the pandemic on public sector finances is more difficult to quantify and it affects a number of the Authority's funding streams:

- Council tax receipts have reduced during 2020 and as a result, deficits are expected on the collection funds of the constituent authorities. A proportion of this deficit will have to be repaid by the Fire Authority.
- Support offered to council tax payers by the constituent authorities will reduce the council tax bases of both authorities, resulting in fewer households from which to collect a precept. It is not yet certain how long the base will take to stabilise.
- Future finance settlements may be heavily impacted following the government's funding of the pandemic crisis.

Spending Review 2021/22

On 25 November 2020, the Chancellor of the Exchequer delivered a speech outlining the Spending Review for 2021/22. Due to pressures relating to the pandemic, a one-year settlement was announced, with the following headlines:

- Settlement expected to be protected in real terms
- Flat cash pensions grant anticipated
- 75% of collection fund losses to be compensated
- Public sector pay frozen for 2021/22, with the exception of those earning less than £24,000
- Council tax referendum limit held at 2% for fire authorities.

A provisional settlement was expected around 17 December.

Whilst the effect of a single year settlement on the Fire sector could now be anticipated, it is much more difficult to determine the possible settlements in place for future years. Scenario planning for next year was carried out on a settlement based on that of 2020/21, and also 2021/22 with inflation, with modelling for later years exemplifying the effects of revenue support grant ending in 2024/25 or 2025/26, and varying precept increases.

In order the test the Authority's financial resilience and ability to adapt to changing conditions, a number of scenarios were developed to test the sensitivity to changes in planning assumptions. The numbers in the table represented the surplus or deficit in the revenue budget that will contribute to reserves, or will require a contribution from reserves or the identification of further savings

Expenditure and Income

The table below shows the expenditure proposed by Strategy & Resources Committee and the projected surplus or deficit using current assumptions for income.

	2021/22 £000	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**
Expenditure budget proposed by the Committee	23,619	24,251	24,742	25,243
Income	22,560	22,996	23,461	23,955
Surplus / - deficit on revenue budget	-1,059	-1,255	-1,281	-1,288

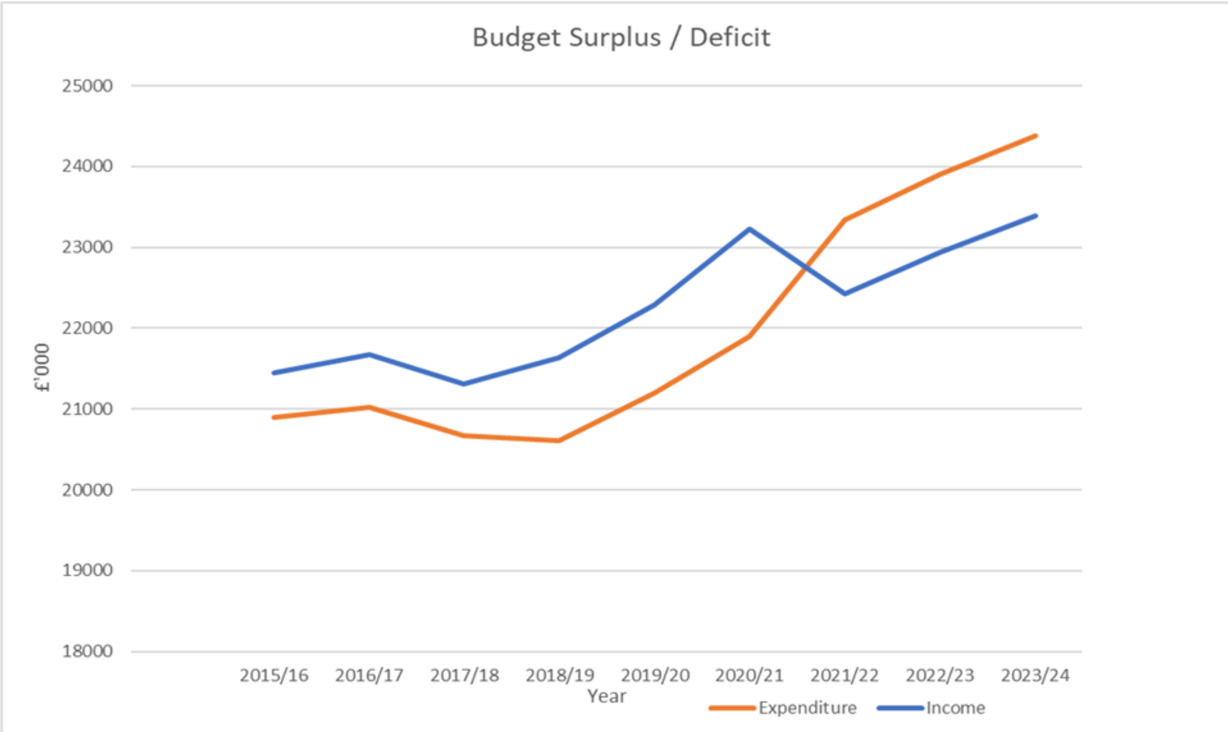
Summary of Planning Assumptions

Current assumptions around cost pressures and funding streams at this time are shown in the table below. Officers and members recognise the uncertainty surrounding future years and indicative assumptions for the following two years are also shown.

Cost assumptions	**2021/22**	**2022/23**	**2023/24**
Pay award - brigade managers (Gold book conditions)	2.0%	2.0%	2.0%
Pay award – operational and Control staff (Grey book conditions)	2.0%	2.0%	2.0%
Pay award - support staff (Green book conditions)	2.0%	2.0%	2.0%
Prices	2.5%	2.5%	2.5%

Funding assumptions - Current	**2021/22**	**2022/23**	**2023/24**
Precept	1.99%	1.99%	1.99%
Council tax base growth	1.87%	1.87%	1.87%
Business rates	2.0%	2.0%	2.0%
Business rates top up grant	2.0%	2.0%	2.0%
RSG	-25.0%	-33.0%	-50.0%
Rural services delivery grant	-100.0%		
Pension grant	-100.0%		
Surplus / -Deficit (£000)	***-1,060***	***-1,255***	***-1,282***

Using the assumptions above, the graph below demonstrates that expenditure is forecast to exceed assumed income across the planning period.



The Fire sector and Government departments continued to lobby the Treasury for a precept increase of £5 or 2%, whichever is higher. This is in line with referendum limits in place for parish councils.

The major refurbishment of the Stafford Park site in Telford will require funding in excess of the reserves and balances currently allocated to the scheme. Some additional borrowing will be required, and this has been factored into the revenue budget as the costs and timing of expenditure becomes clearer.

Grant Assumptions

The Government's proposed Comprehensive Spending Review and Fair Funding mechanism for Local Government are now delayed. Reforms to the business rates model, including 75% business rates retention and a full business rates baseline reset, will not happen until 2022/23. As a result, figures in the later years of the planning period must be taken with a high degree of caution.

Fire Pension Scheme Revaluation

As the budget was set for 2019/20, members of Strategy & Resources Committee were informed about the impact of the 2016 revaluation of Fire pension schemes. At that time around ninety per cent of the increase in employer contributions was covered by grant from the Treasury. It was anticipated that this grant will be paid again in 2021/22, and some funding options include this assumption.

Collection Fund and Council Tax Base
The level of council tax collected by constituent authorities in 2020/21 has reduced due to the pandemic, and this will lead to deficits in the collection funds held by each authority at the end of the financial year. The Fire Authority receives a share of any collection fund surplus at the end of each year, and must contribute to any deficit.

The Authority does not account for a surplus or a deficit as part of its planning but this year an estimated deficit has been included. The Chancellor has confirmed that 75% of any deficit will be refunded, so this will also be factored in.

The planning assumption for council tax base is that the combined base will increase by 1.87% per year. Planning for next year has been based on nil growth, as more households are given council tax support which affects the calculation of the base. A scenario based on a very modest increase has also been included.
As the constituent authorities adjust their collection rates and tax bases going forward, it is likely that these assumptions can be included with a greater degree of stability.

Options for Consideration

The table below exemplifies a number of options in terms of grant reduction and other movements. The current assumptions are shown first, with various scenarios being shown below.

The options at the end of the table show the effect of a varying precept increase on the model.

		Surplus / -Deficit			
	Assumptions **(Changes in bold)**	**2021/22** **£'000**	**2022/23** **£'000**	**2023/24** **£'000**	**2024/25** **£'000**
	Current -Rates / top up grant increase 2% -RSG to zero by 24/25 -CT base growth 1.87% -Precept increase 1.99% -Pay award 2% -No pension grant	-1,059	-1,255	-1,281	-1,288
1	-***RSG as 20/21 for 21/22 then zero by 24/25*** -***top up grant as 20/21 for 21/22*** -2% increase rates -***CT Base nil growth*** -***Collection fund deficit -£418k*** -Precept increase 1.99% -***Pay award nil*** -No pension grant	-921	-957	-990	-1,005

		Surplus / -Deficit			
	Assumptions (Changes in bold)	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
2	-RSG as 20/21 for 21/22 then zero by 24/25 -top up grant as 20/21 for 21/22 -2% increase rates -CT Base nil growth -Collection fund deficit -£418k -Precept increase 1.99% -Pay award nil -***Pension grant included***	180	144	111	96
3	-***RSG 1.5% increase for 21/22 then zero by 25/26*** -***top up grant 1.5% for 21/22*** -2% increase rates -***CT Base 0.3% growth*** -Collection fund deficit -£418k -Precept increase 1.99% -Pay award nil -Pension grant included	287	249	214	197
4	-RSG 1.5% increase for 21/22 then zero by 25/26 -top up grant 1.5% for 21/22 -2% increase rates -CT Base 0.3% growth -***Collection fund deficit -£30k*** -Precept increase 1.99% -Pay award nil -Pension grant included	675	219	184	197

		Surplus / -Deficit			
	Options (Changes in bold)	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
1	-RSG 1.5% increase for 21/22 then zero by 25/26 -top up grant 1.5% for 21/22 -2% increase rates -CT Base 0.3% growth -Collection fund deficit -£30k -Precept increase 1.99% -Pay award nil -Pension grant included	675	219	184	197
2	-RSG 1.5% increase for 21/22 then zero by 25/26 -top up grant 1.5% for 21/22 -2% increase rates -CT Base 0.3% growth -Collection fund deficit -£30k -***Precept increase 0.99% 21/22*** -Pay award nil -Pension grant included	506	43	1	6
3	-RSG 1.5% increase for 21/22 then zero by 25/26 -top up grant 1.5% for 21/22 -2% increase rates -CT Base 0.3% growth -Collection fund deficit -£30k -***Precept increase nil 21/22*** -Pay award nil -Pension grant included	338	-132	-181	-182

Members were asked to determine the option upon which budget setting should be based, with consideration being given to the uncertainty of years following the one year settlement in 2021/22. Option 1 was chosen as the one upon which to base revenue budget for 2021/22.

Provisional Grant Settlement 2021/22

The provisional finance settlement was announced on 17 December:

- Revenue Support Grant has increased by 0.55% - the planning option adopted by the CFA at its December meeting (Option 1) showed a slightly higher inflation rate
- Rates and top up grant remain the same in cash terms
- Rural Services Delivery Grant has continued with an increase of 4.9%
- Grants have been awarded for compensation on business rates (£204,000) and increased costs for council tax support, which affect council tax base (£249,000).
- It was also announced that 75% of losses on collection funds would be covered with additional grant, with the remainder payable over 3 years rather than 1 year.

Since the announcement of the settlement, it has also been confirmed that pensions grant would continue to be payable, to offset increases in employer contributions following the revaluation of the Fire pension schemes. It is also likely that this will be rolled into the base settlement; strategic planning will include this scenario.

Capital Programme - Revenue Consequences

Revenue implications of the capital programme have been added to the revenue budget, following consideration of the programme by Strategy & Resources Committee in January.

Medium Term Budget Considerations

The global pandemic has had a major effect on financial planning for the Authority:

- in the short term, ensuring that delays in cash flow did not affect the day to day operation of the Service,
- for the year ahead, mitigating the immediate impact on funding streams such as council tax and collection fund income, as more households were supported, and
- into the medium term, anticipating how these funding streams will change as constituent authorities adapt their collection and support strategies.

The assumptions upon which budget planning is based have been carefully considered to ensure that they reflect the best estimated outcomes for the Fire Authority.

The budget position for 2021/22 has been updated to reflect the information available following the settlement. However, there is still a great deal of uncertainty into the medium term, with a one-year finance settlement and delays to the Comprehensive Spending Review, Fair Funding Review and Business Rates Reform. Estimates from constituent authorities for collection fund balances, council tax base growth and rates receipts and will also be important for realistic scenarios into the medium term. Therefore, as in previous budget cycles, the years following 2021/22 are estimates only, and will be updated when further information becomes available.

Revenue Budget 2021/22 and future years

The position for 2021/22 and into the medium term can now be summarised as follows:

	2021/22 £000	**2022/23 £000**	**2023/24 £000**
Expenditure:			
Budget	23,007	23,458	24,110
Surplus / -deficit	466	-594	-808
Total	**23,473**	**22,864**	**23,302**
Funded by:			
Grant and business rates	6,231	4,979	4,717
Business rates collection fund	-4	-25	-25
Council tax	17,304	17,978	18,678
Council tax collection fund	-58	-68	-68
Total	**23,473**	**22,864**	**23,302**

Using current assumptions, there are deficits estimated in future years. Sharp reductions in revenue support grant are currently anticipated, but more will be known following the Comprehensive Spending Review and Fair Funding Review. Further scenario planning will continue to be carried out to exemplify the effect of a changing finance settlement.

The capital programme has been funded using Earmarked Capital Reserve and Major Projects Reserve during the past few years. However, as these reserves are depleted once current schemes are completed, the Authority will turn to borrowing to fund the future programme. The associated revenue consequences of borrowing have been added to future budgets, but there is scope for change as reserves are replenished and completed reviews lead to alternative, more efficient replacement of assets.

It is important that the Authority considers how future deficits will be covered, either through reduced spending or changes in structure. Where reductions are necessary, the Service's Integrated Risk Management Plan will identify potential changes in service delivery, which will then be quantified in budget provision.

However, the uncertainty surrounding local government finance into the medium term will continue to make strategic financial planning very difficult, and the position of future years should only be viewed as estimates, until more information becomes available.

The Planning Cycle

The Authority continues to monitor and review its strategic planning options and is well placed to react to future funding decisions. Financial planning is reviewed and considered by officers and members in Strategy & Resources Committee, before being recommended to the Fire Authority for decision. There is also opportunity for further discussion at the Authority's Strategic Advisory Group.

The Authority prepares short, medium and long term revenue and capital budgets, leading in February each year to the setting of the precept (council tax) for the year ahead.

The detailed process for budget planning is agreed and the leading factors are service planning, government grant settlement and precept strategy. Effective strategic planning demands that all service plans are consistent with the budgets as agreed each February.

To be successful, strategic planning must ensure that the Service's ambitions are quantified in the revenue budget and capital programme, both now and in the medium term. Attention must also be paid to long term budget requirements and the resources likely to be available. Exact budgets cannot be formulated in such uncertain circumstances and so the Authority should have a range of options available to redesign service delivery according to varying levels of budget reduction.

The Revenue Budget

There are a number of stages to the review of the revenue budget and they are outlined in the table below.

Review of the base budget	Individual budget areas are reviewed by officers and amended where necessary
Committed costs	Changes to expenditure are made where decisions have already been taken i.e. pension scheme increases, leasing costs, debt charges for approved capital scheme
Pay and prices	Assumptions are made around likely pay awards and inflationary pressures, and adjustments are made to the budget
Efficiencies	Reductions to the budget will be made where more efficient ways of working are identified
Capital programme	Where capital schemes are to be funded from borrowing, the associated debt charge will be reflected in the revenue budget

Revenue Resources available

The revenue budget is funded from the following:

Council Tax	Precept income is the largest of the Authority's income streams, and currently covers around 70% of the budget requirement
Business rates from authorities	Business rates are no longer collected centrally and redistributed by central government; they are paid to the Authority directly from Shropshire Council and Borough of Telford & Wrekin
Business rates top up grant	Top up grant is paid to the Authority as the direct payment of business rates from the constituent authorities is less than the previously redirected rates from central government
Revenue Support Grant	This is a grant received directly from central government; this element of the Authority's income has been reducing since the Local Government Finance Settlement in 2011/12.
Other grants	The Authority receives a number of smaller grants directly from central government, including transition grant and rural services delivery grant in recent years.

Reserves Strategy

Overview of the Reserves Strategy

The Fire Authority's reserves strategy is an integral part of its financial planning and capital strategy.

CIPFA state that when reviewing their medium term financial plans and preparing their annual budgets, local authorities should consider the establishment and maintenance of reserves. These can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- A contingency to cushion the impact of unexpected events and emergencies – this also forms part of general reserves
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

Earmarked Reserves

a) Extreme Incidents Reserve

This reserve is in place to deal with extreme weather conditions and unanticipated future activity, which may not be containable within the revenue budgets.

b) Pension Liabilities and Other Staff Issues

The purpose of this reserve is to meet one-off contributions, required by the Government, to the Pensions Account for sickness retirements. Until 2015/16, only ill health contributions over and above those budgeted in revenue were funded from the reserve. However, as part of the 2020 consultation outcomes, all ill health contributions are funded from the reserve, and the revenue account has been reduced accordingly.

The scope of this reserve was widened to include the potential liabilities arising from the part-time workers employment tribunal case; compensation payable to retained firefighters for terms and conditions has been met from the reserve.

Another small element of this reserve is to provide for staff issues relating to equality and diversity. Provision has been made for expenditure for reasonable adjustments and mediation, in order that these issues are not budgeted for on an annual basis.

The Authority has enjoyed very low levels of ill health retirements, although provision still has to be made for instances in future years. In addition, the Modified Pension Scheme has now been introduced with no one off costs anticipated. It was considered prudent during the reserves review to reduce this reserve while still maintaining a buffer for future costs.

c) Capital – Earmarked

The objective of this reserve is to fund capital schemes, thereby avoiding unnecessary borrowing costs for future taxpayers. There is no known reason to change this approach, although a review may be required, if savings are needed in future years.

Until 2015/16, contributions were made back over the lives of any assets funded from the reserve; however, as part of the 2020 consultation outcomes, these contributions were removed, and the revenue budget reduced accordingly.

d) Capital – Major Projects

The objective of this reserve was to build up funding from revenue savings that could then be used to maximise major capital schemes. The objective is to minimise borrowing and, therefore, committed debt charges in future years. This reserve will be used towards the funding of major improvements at the Telford site.

Following a review into the level of reserves held by the Authority, it was agreed that the net surplus of £1m would be contributed to this reserve.

e) ICT Reserve

This reserve is designed to ensure that ICT improvements and resilience issues are managed and funded in a clear and consistent manner.

f) Service Transformation Programme Staff Reserve

The Service Transformation Programme is a high-level programme of activities, which will be completed to ensure that the Service is best placed to meet the challenges it is likely to face over the coming years.

Funding for projects identified as part of the Programme have been taken into account in the revenue budget and the capital programme. This reserve was set up to cover the staff elements of the projects.

g) Income Volatility Reserve

This reserve was set up to smooth any volatility or fluctuations in the funding received against estimates in the Medium Term Financial Plan.

The reserve has not been called upon to smooth fluctuations in budget setting since its inception, therefore it was felt prudent to divert funds to the Major Projects Capital Reserve.

However, as the 2019/20 year was closed, it was recognised that there were potential income reductions in collection fund balances and council tax base due to the pandemic, and this reserve was increased.

h) Service Delivery Reserve

This reserve was set up to fund initiatives in service delivery and prevention, to avoid irregular movement in the revenue budget.

i) Training Reserve

There have been, and will continue to be, changes in the management structure of the Service, which will inevitably require additional training and development of staff. This reserve was created to enable this training and development to be carried out, without adding additional pressure to the revenue budget.

j) New Operational Equipment

This reserve has been established to help provide some stability in the revenue budget in this area. Where a need for new equipment is identified, contributions can be made from the reserve, and any ongoing requirements for the equipment can be established. In the meantime, officers can continue to analyse and manage revenue expenditure, leading to realistic budget setting in future years. The Equipment reserve has been used successfully to cover additional requests that could not be covered with regular budgets.

k) Building Maintenance

The revenue budget in this area is used to fund preventative or controlled maintenance in line with the Authority's Asset Management Plan, and also covers unexpected reactive maintenance. It is proposed that the revenue budget is used for regular planned maintenance of buildings, and that a reserve is created to deal with exceptional, unexpected repairs, that do not require a regular revenue budget.

General Fund

The General Fund is simply the net balance of over and underspends during the year. The Authority's policy is not to accumulate funds year on year (and obviously to deal with any potential overspend). The balance in the General Fund at 1 April 2019 was £485,000 and the Fire Authority agreed to hold £74,000 back; £62,000 for potential legal costs relating to the challenge of the transfer of governance to the Police and Crime Commissioner, and £12,000 for animal rescue and equality & diversity initiatives.

The balance of the General Fund has been allocated to the Major Projects Capital Reserve, following a request to the Authority at its June meeting.

Adequacy of Reserves

As the revenue budget was set for 2019/20, members considered the reserves held by the Authority, and deemed them to be adequate and reflective of its risks. There was a net reduction in the total level of reserves in 2018/19 – a budgeted contribution had been made to the Major Projects Reserve for improvements at Telford, and contributions from reserves were made for capital expenditure and spend on pensions and one-off revenue items.

The reasons for holding reserves are still valid in terms of risk areas for the Authority, and a review was held during 2018/19 to ensure that the level of each reserve was justified and reasonable.

It was agreed by the Fire Authority in 2014 that all available funds and underspends would be diverted to the Major Projects Reserve to maximise funds available for improvements at Telford; however contributions to other reserves have also been requested and approved where appropriate.

General Reserve

This reserve represents a risk assessment of the pressures likely to face the Authority, based on the probability of the occurrence of those risks. This is a small proportion of the total reserves held, as the majority of the pressures identified are recognised in the earmarked reserves. However, there are still occurrences that need to be provided for that are unanticipated, and this reserve provides funding for those events.

The content of the General Reserve is reflective of the risks recorded corporately and departmentally. There are no plans to amend the balance held, although the proportions held for events within the reserve may change over time. However, a review will be held over the next year to reassess the General Reserve.

	Balance 01/04/21 £000	Spend £000	Income £000	Balance 31/03/22 £000	Spend £000	Income £000	Balance 31/03/23 £000	Spend £000	Income £000	Balance 31/03/24 £000
General	577	0	0	577	0	0	577	0	0	577
Earmarked Capital	1,370	-1,620	250	0	0	0	0	0	0	0
Major Projects	10,126	-5,827	639	4,938	-4,938	0	0	0	0	0
Extreme Incidents	334	0	0	334	0	0	334	0	0	334
Pensions and Other Staff Matters	725	-50	0	675	-50	0	625	-50	0	575
Information and Communications Technology (ICT)	1,029	-250	250	1,029	-250	0	779	-250	0	529
Income Volatility	687	0	0	687	0	0	687	0	0	687
Service Transformation Programme Staff	159	-100	100	159	-300	200	59	-59	0	0
Service Delivery	176	-20	0	156	-20	0	136	-20	0	116
Building Maintenance	312	-50	0	262	-50	0	212	-50	0	162
Operational Equipment	166	-50	0	116	-50	0	66	-50	0	16
Training	17	-30	100	87	-30	0	57	-30	0	27
Total	**15,678**	**-7,997**	**1,339**	**9,020**	**-5,688**	**200**	**3,532**	**-509**	**0**	**3,023**