

## 2018/19 and Later Years Revenue and Capital Budgets

### Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 258915, or Joanne Coadey, Head of Finance, on 01743 260215.

### 1 Purpose of Report

This report brings together the elements of an initial revenue budget, based on current planning assumptions, and seeks the Committee's approval for this outline to be recommended to the Fire Authority in December 2017.

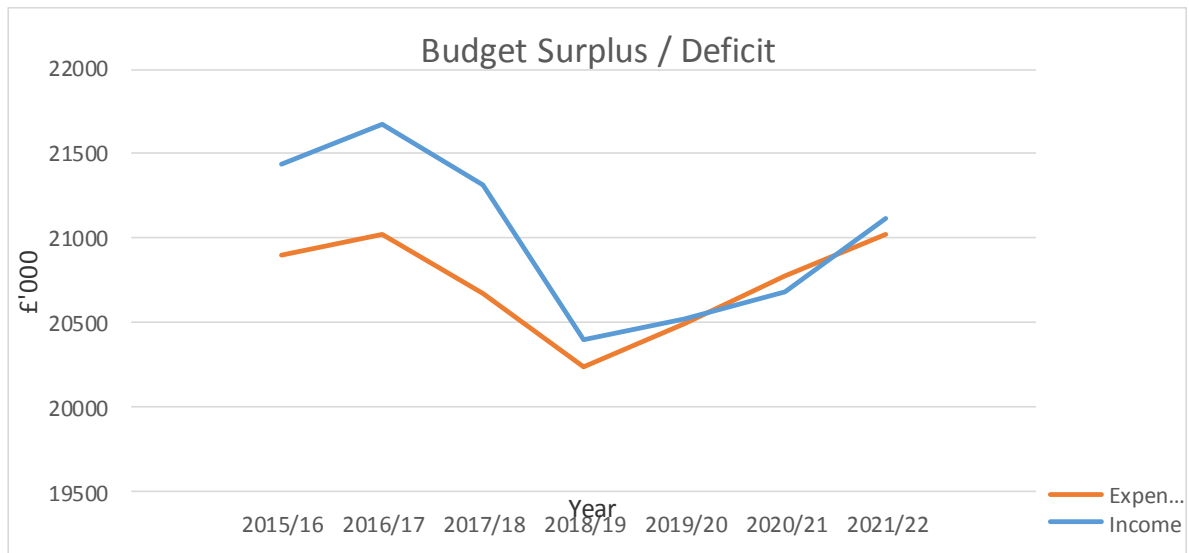
### 2 Recommendations

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 13 December 2017.

### 3 Background

At its meeting in February 2017, the Fire Authority approved a revenue budget of £21.313m for 2017/18, which included a budgeted surplus of £645,000. Revenue budgets to 2019/20 were also projected, along with the provisional four year figures provided by Department for Communities and Local Government (DCLG), which are shown in the following graph.



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

- Precept increase of 0.5% from 2017/18 onwards
- Pay award of 1% from 2017/18 onwards
- Revenue Support Grant reduced in line with provisional four year settlement from DCLG to 2019/20
- Council tax base growth at 2.16% in 2017/18, 0.8% thereafter
- Business rates received from Shropshire Council and Borough of Telford & Wrekin
- Business rates top-up grant received from Government
- Contribution to Telford improvements capital scheme from the revenue account
- Additional grants received from DCLG at the final settlement to be treated as revenue contributions to the Telford scheme.

This report deals with the revenue budget, and proposes changes in revenue expenditure. The stages in the budget process, and the proposed updates to assumptions during, and as a result of, the review are laid out in the following sections. The Committee is asked to consider each element and approve the associated recommendations at the beginning of the report.

Although funding estimates can only be completed once final information becomes available, for Council Tax Band D base and Collection Fund surpluses planning will continue, based on the assumptions adopted by the Authority.

### **Four Year Efficiency Plan**

As part of the move to more self-sufficient local government, an offer was set out to any authority that wished to take it up, of a four-year funding settlement to 2019/20. In order to obtain this four-year settlement, authorities were required to submit a robust and transparent efficiency plan. The offer of a four-year settlement was put forward by the DCLG; however following the move of the Fire Service to the Home Office, it was confirmed that this offer was still available to fire authorities.

The plan for this Authority was approved by members on 5 October 2016 and subsequently approved by the Home Office. The plan was based on the assumptions agreed by the Authority while setting the budget.

The financial year 2018/19 will be the third year of the four year settlement, and so indicative numbers are already known. The provisional settlement which should confirm the figures for 2018/19 will be received towards the end of the year.

### **Budget Management Board – overarching principles**

Senior managers are members of the Service's Budget Management Board, which reviews the Authority's financial performance and its long term budget strategy. The principles within which the Board operates are as follows:

- The target is to manage the budget deficit within tolerable parameters;
- The Service will focus on continued service improvement, taking into account all necessary budgetary constraints;
- Future changes to be tailored to the needs of the community and the capacity of the Service; and
- The Fire Authority will continue to pursue collaborative opportunities actively with other organisations, where they offer potential advantages to the community.

## **4 Stage One – Base Budget Review and Committed Changes**

As the first step in the budget setting process, revenue budgets have been reviewed with officers; this has taken into account both changes that have been made to date to the 2017/18 revenue budget, and anticipated changes for 2018/19 and future years.

A contribution will be made from the revenue account for the funding of the major improvements scheme at the station and training centre in Telford. Capital grant received from government in previous years will be used to fund the remaining capital programme.

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

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
<b>2017/18 Budget</b>	<b>20,668</b>	<b>20,668</b>	<b>20,668</b>	<b>20,668</b>	<b>20,668</b>
<b>Committed Changes</b>					
Pensions contributions		50	50	100	100
<b>Base Budget Review</b>					
Pensions Administration	15	15	15	15	15
ICT Contracts (note 1)	30	30	30	30	30
Personal Protective Equipment maintenance (note 2)	20	20	20	20	20
Revenue contribution to capital	-709	-709	-709	-709	-709
<b>Total</b>	<b>20,024</b>	<b>20,074</b>	<b>20,074</b>	<b>20,124</b>	<b>20,124</b>
<b>Total movement in base budget</b>	<b>-644</b>	<b>-594</b>	<b>-594</b>	<b>-544</b>	<b>-544</b>

**Note 1** – the way in which ICT systems are procured and funded has changed in recent years, and this is reflected in the expenditure in this area. In previous years, a capital scheme would have been approved to procure a physical solution, with a small running cost or maintenance agreement. However many ICT solutions are now cloud based and virtual, with expenditure taking the form of a larger support agreement or maintenance package funded from the revenue budget.

The increase in the table above follows a review of the ICT commitments now payable from the revenue budget.

**Note 2** – members will be aware that a major capital scheme to replace personal protective equipment (PPE) throughout the Service was funded with a capital scheme and was completed in 2014. Due to the investment in new PPE and a recognition that there would be fewer repairs, this revenue budget was reduced accordingly.

It is now necessary to increase the revenue budget, reflecting the increase in repairs as the kit becomes older. In addition, firefighters are now more aware of the risks of contamination if PPE is not cleaned thoroughly following incidents, and as a result the costs of laundering have increased.

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 (2017/18) 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

Despite a public sector pay cap of 1% being in place, current negotiations have resulted in an offer to employees of a 2% award. This has been rejected by employees, but the price contingency has been increased to reflect these negotiations.

Provision has also been made to accommodate the increase of 2% being offered for the current year; pay contingency for 2017/18 was held at 1%.

In terms of prices, non pay increases have been provided for at 3% to reflect current levels. Where inflationary increases are higher than this level, adjustments will be accommodated within the contingency.

## Conclusions

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

	Pay		Prices	
	%	£'000	%	£'000
<b>2018/19*</b>	3.0	426	3.0	103
<b>2019/20</b>	2.0	291	3.0	106
<b>2020/21</b>	2.0	298	3.0	110
<b>2021/22</b>	2.0	304	3.0	113
<b>2022/23</b>	2.0	310	3.0	116

\* 2% for 2018/19 plus 1% backdated from 2017/18

Please see recommendation b).

## 6 Stage Three – Capital Programme 2018/19 to 2022/23

The Authority has already agreed capital programmes for 2017/18 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 2018/19**

The schemes under consideration include appliances and operational equipment, and are currently being reviewed by officers. The schemes in the early years of the planning period will be funded by Earmarked Capital Reserve, or government grant. Therefore there are no revenue consequences associated with the funding of the programme.

Funding for the major capital scheme at Telford is also being reviewed; the initial stages are likely to be funded from revenue contributions and surpluses and also contributions from the Unearmarked Capital Reserve, which has been built up in readiness for the major development.

In the later stages of the planning period, some borrowing will be required to fund part of the Telford improvements, and some of the other later schemes. However, the associated borrowing costs should be offset by savings from the Integrated Risk Management Plan shift changes project.

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 2018/19. 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 February 2018 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 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:

	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Previous Year's Budget	20,668	20,553	21,000	21,408	21,875
Committed Change	-644	50	-	50	-
Pay and Prices	529	397	408	417	426
2015/16 and later Capital Programme	-	-	-	-	-
	<b>20,553</b>	<b>21,000</b>	<b>21,408</b>	<b>21,875</b>	<b>22,301</b>

## 8 Funding Assumptions

Officers have continued to use the Service's budget planning model, which is estimating budgets and income to 2022/23. Financial planning will forecast the position of the revenue budget to 2022/23, but with emphasis on the medium term, i.e. 2018/19 to 2020/21.

Work undertaken to date indicates that the Authority's budget planning strategy is on target, although changes in pay strategy will necessitate discussions around funding. Revenue surpluses, which accumulated following the process, have been used to fund capital schemes, therefore maintaining stable capital reserves. Resources have also been allocated to the Service Transformation Programme, to enable essential improvement schemes to be completed. After the four year finance settlement, 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 on page 7 as an indication of the financial position, based on a number of uncertain assumptions. Officers and Members should note this longer-term position and have plans and options available to meet a range of possible outcomes. The Authority's Integrated Risk Management Planning 2020 projects have ensured that the Service has plans in place to reshape service delivery into 2019/20 and beyond the current planning period. These savings have not yet been factored in to the budget setting calculations; officers will be modelling how savings on watches may contribute to the major improvements at Telford, and these will be brought to members for discussion and decision.

On 5 October 2015, the Chancellor announced that by the end of this parliament, local authorities will retain 100% of business rates. This was subsequently superseded by the calling of a snap election on 8 June 2017 and the legislation to take this forward was not included in the Queen's Speech, suggesting roll out will not occur before 2020/21 at the earliest. The implications of funding for Fire Authorities are not clear, and a decision about whether the Fire Sector is to remain within the rates retention scheme is unlikely to be made until 2021.

The Fire Authority is currently in discussion with both constituent authorities with regard to participating in a 100% rates retention pilot scheme. The proposed pilot would cover the financial year 2018/19 and would involve pooling business rates over the Marches LEP geographical area (thereby including Herefordshire Council as well as the Fire Authority and the two constituent authorities). An application from participating authorities, including the Fire Service, was made on 27 October 2017 and successful applications will be confirmed alongside the Local Government Financial Settlement in December 2017. More information will be brought to members as the details of the pilot become available.

## **Funding Settlement**

The Chancellor of the Exchequer, Philip Hammond, has announced that he will present his Autumn Statement to Parliament on 22 November 2017.

Once settlements have been made available to individual authorities, officers will be in a position to present medium and long term funding options to the Authority. This may be superseded by a meeting of the Strategic Planning Working Group, where planning assumptions can be confirmed.

## **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 attached to this report.

## **13 Background Papers**

There are no background papers associated with this report.