

2020/21 and Later Years Budget Summary

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 summarises the budgets that are proposed by the Strategy and Resources Committee. The results are put forward to the Fire Authority for approval as the basis for consultation, leading to a final decision at the Fire Authority meeting in February 2020.

2 Recommendations

The Fire Authority is recommended to:

- a) Approve the recommendations set out in section 5 of the report, using option 1 for 2020/21, and allowing officers to continue to work on a range of planning scenarios for later years of the planning period;
- b) Agree the recommendations on Reserves and Provisions, set out in report 7 of Appendix A to this report;
- c) Approve the requests for growth summarised in section 7 of the report and detailed in Appendix B to the report; and
- d) Request the Strategy and Resources Committee to prepare a final budget package in January 2020, for final decision by the Fire Authority in February 2020.

3 Background

The Strategy and Resources Committee agreed to submit a four-year revenue and capital budget for consideration by the Fire Authority. Full details are set out in the reports, which were agreed by the Committee and which are attached at Appendix A to this report.

The Committee reviewed expenditure budgets, and also received a report which detailed the Authority's reserves and provisions. The reserves and provisions currently total £16.2m.

4 Current Position

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 have meant that the Comprehensive Spending Review for 2020/21 has not been completed, therefore a one year settlement has 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.

The Ministry of Housing, Communities and Local Government (MHCLG) will not be publishing a provisional finance settlement for 2020/21 before next year. It is not yet possible to determine either the impact of the one year settlement on the Fire sector, or the possible settlements in place for the future years. Scenario planning for next year has been carried out on a settlement based on that of 2019/20, and also 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.

In order to test the Authority's financial resilience and ability to adapt to changing conditions, a number of scenarios have been developed which test the sensitivity to changes in planning assumptions. The numbers in the table represent 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.

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Expenditure budget proposed by the Committee	21,513	23,027	23,634	24,263
Income	22,370	22,520	22,953	23,414
Surplus / - deficit on revenue budget	857	-507	-681	-849

Income shown is based on the following assumptions:

- Grant as at 2019/20 settlement plus inflation; continuation of Rural Services Delivery Grant in 2020/21; 2% increase in rates income from 2020/21
- Precept increase of 1.99% for 2020/21 and later years
- Council tax base increase of 1.87% from 2020/21
- Pay award of 3% from 2020/21

The scenario above is based on a pay award of 3%, however recent awards have held at 2%. Similarly, while this scenario includes precept increase of 1.99%, an increase of 2.99% has also been modelled in line with referendum limits in recent years. The Treasury is currently being lobbied across the Fire sector and Government departments for a precept increase of £5 or 2%, whichever is higher. This is in line with referendum limits in place for parish councils.

Savings factored into the Integrated Risk Management Planning projects on changing shift patterns on watches are now shown in the expenditure budget from 2020/21. It is anticipated that these savings will be realised as a result of natural wastage.

In addition, 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 will be factored into the revenue budget as the costs and timing of expenditure becomes clearer.

5 Grant Assumptions

The Government's review of public finances and proposed Fair Funding mechanism for Local Government, which is expected to impact directly on Fire Authority funding, is now delayed. It is expected that the outcome of the review will be implemented as part of the 2021/22 local government finance settlement, alongside increased business rates retention, a full business rates baseline reset, and the 2019 (now 2020) Spending Review. As a result, the figures included in this report from 2021/22 must be taken with a high degree of caution.

Fire Pension Scheme Revaluation

As the budget was set for 2019/20, members of Strategy and 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 is anticipated that as revenue support grant for 2019/20 has been rolled forward to 2020/21, this grant will also be paid again in 2020/21, and funding options include this assumption.

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.

	Assumptions	Surplus / -Deficit			
		2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
	Current -Rates / top up grant increase 2% -RSG 2% increase for 20/21 then to zero by 24/25 -CT Base growth 1.87% -Precept increase 1.99% -Pay award 3%	857	-508	-682	-850
Option					
1	-RSG as 19/20 for 20/21 then zero by 24/25 -2% increase rates and top up grant -CT Base growth 1.87% -Precept increase 2.99% -Pay award 3%	996	-182	-154	-104
2	-RSG as 19/20 for 20/21 then zero by 23/24 -2% increase rates and top up grant -CT Base growth 1.87% -Precept increase 2.99% -Pay award 3%	996	-290	-370	-427
3	-RSG as 19/20 for 20/21 then zero by 24/25 -2% increase rates and top up grant -CT Base growth 1.87% -Precept increase 1.99% -Pay award 3%	831	-527	-695	-856
4	-RSG as 19/20 for 20/21 then zero by 24/25 -2% increase rates and top up grant -CT Base growth 1.87% -Precept increase 2.99% -Pay award 3% 2021 then 2%	996	-48	154	387
5	-RSG as 19/20 for 20/21 then zero by 24/25 -2% increase rates and top up grant -CT Base growth 1.87% -Precept increase 1.99% -Pay award 3% 2021 then 2%	831	-393	-387	-366
6	-RSG 2% increase for 20/21 then zero by 24/25 -2% increase rates and -top up grant -CT Base growth 1.87% -Precept increase 1.99% -Pay award 3% 20/21 then 2%	857	-374	-374	-359

Members are asked to determine the option upon which budget setting should be based; given the current position on both precept referendum limits and pay award, options 5 or 6 would both be reasonable bases.

To demonstrate the single year impact of each change in the assumptions used, the following table illustrates the effects of one off changes.

Change in assumption	Impact £'000
1% increase in pay award	-134
1% increase in precept	+177
0.5% increase in council tax base	+84

The calculations above do not include any one off funding streams as these cannot be quantified or relied upon. These include collection fund balances for council tax and business rates, which have yielded a share to the Authority of over £300,000 per year over the last three years, and additional section 31 government grants relating to business rates, which have been over £200,000 per year over the last two years.

Revenue implications of the capital programme will be added to the revenue budget, following consideration of the programme by the Strategy and Resources Committee in January 2020. Indicative figures are shown below, although this is for illustration only.

2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
-71	-192	-285	-159

Given the continued uncertainty surrounding the mid to late years of the planning period, members are advised to approve a budget for 2020/21, using the information available in February, and to task officers to continue to work on a range of scenarios, that can be adapted as and when more definite information becomes available.

6 Council Tax Base and Collection Fund

Council Tax Base

Current modelling includes growth in council tax base of 1.87% in 2019/20 to 2023/24, to reflect increases in the number of houses built in Shropshire and Telford & Wrekin in future years. These assumptions have been made available by both authorities but are subject to review and change.

No firm numbers are yet available from Shropshire Council and the Borough of Telford & Wrekin for 2020/21; bases must be approved by January 2020.

Collection Fund

The Authority continues to take a prudent approach and has removed any surplus on Collection Funds from budget planning. This policy applied to both the council tax and business rates Collection Funds.

When Collection Fund balances are confirmed in January 2020, adjustments can be made to the proposed budget for 2020/21, however nothing will be anticipated for future years.

7 Requests for Growth

Officers held a strategic planning day in December where several requests for growth in the revenue budget were presented and discussed. The requests cover permanent restructures and additions to departments and transformation growth which is temporary and can be funded by reserves. Business cases for each area of growth are attached to this report at exempt Appendix B for information, and the requests are also summarised below.

Growth Item	2020/21 £'000	2021/22 £'000	2022/23 £'000
Protection – 3 Inspecting Officers to ensure that existing and future inspection programmes and additional workstreams are adequately resourced	152	-	-
Prevention / Transformation – restructure of Prevention team to better support the community in prevention activities; incorporates the transfer of station manager post to Transformation from Prevention, which will support the Service's risk management planning, inspection regime and Alliance activity. Water Safety post to be funded from Staff Transformation Reserve for 2020/21 and reviewed in 2021/22	-76 89 76 -15		
Area Command – temporary Watch Manager to assist in the research and development aspect of the On Call Sustainability review – to be funded from Staff Transformation Reserve	55 -55		
Training – 2 Crew Managers for training delivery and enhanced resilience, to ensure staff competence and effectiveness. One of the Crew Managers to be funded from Service Delivery Reserve whilst savings identified in future training delivery	120 -60		40
Human Resources – restoring capacity in existing roles in Equality, Diversity and Inclusion, and conversion of an administration post to HR Assistant to reflect work carried out in the role	30	-	-
Total	316		40

8 Financial Implications

These are detailed in the main body of the report.

9 Legal Comment

There are no direct legal implications arising from this report.

10 Initial Impact Assessment

An Initial Impact Assessment has been completed.

11 Appendices

Appendix A

Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee, 8 November 2018, Reports 6 and 7.

Exempt Appendix B

Paper 14 - Request for Growth Business Cases

12 Background Papers

The background papers associated with this report are attached as an appendix.

2020/21 and Later Years Revenue and Capital Budgets

Report of the Treasurer

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

1 Purpose of Report

This report brings together the elements of an initial revenue budget, based on current planning assumptions, and seeks the Committee's approval for this outline to be recommended to the Fire Authority in December 2019.

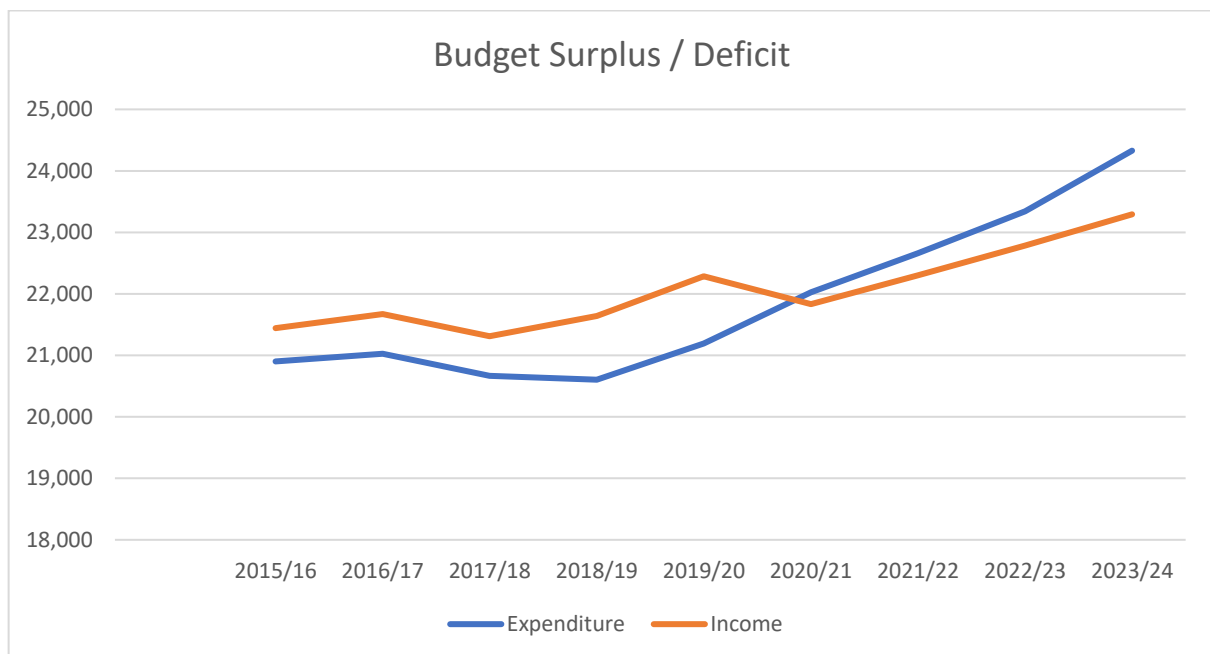
2 Recommendations

The Committee is asked to recommend that the Fire Authority:

- a) Notes the revisions and the committed changes to the base budget, as shown in section 4;
- b) Bases its pay and price contingency in the revenue budget on the calculations set out in section 5;
- c) Notes the process for the approval of the capital programme, and
- d) Approves the expenditure figures associated with those approved assumptions as a basis for developing the budget at the meeting of the Fire Authority on 18 December 2019.

3 Background

At its meeting in February 2019, the Fire Authority approved a revenue budget of £22.287m for 2019/20, which included a budgeted surplus of £1.093m. Revenue budgets to 2023/24 were also projected, although members were advised that, due to the uncertainty about future funding, these were purely estimates. This noted position is shown in the following graph:



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

- Precept increase of 2.99% from 2019/20 onwards
- Pay award of 3% from 2019/20 onwards
- Revenue Support Grant reduced in line with provisional four-year settlement from Department for Communities and Local Government (DCLG) to 2019/20, then reduced to zero by 2023/24
- Council tax base growth at 2.02% in 2019/20, 1.87% thereafter
- Business rates received from Shropshire Council and Borough of Telford & Wrekin
- Business rates top-up grant received from Government
- Contribution to Telford improvements capital scheme from the revenue account
- Additional grants received from DCLG at the final settlement to be treated as revenue contributions to the Telford scheme.

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

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

Four Year Efficiency Plan

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

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

The financial year 2019/20 was the final year of the four-year settlement; the Chancellor of the Exchequer has announced a single year rollover spending round for 2020/21, based upon a 'flat real' 2019/20 settlement. The provisional settlement which should confirm the figures for 2020/21 will be received towards the end of the year.

Budget Management Board – overarching principles

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

- The target remains to manage a balanced budget to 2022/23;
- The Service will focus on continued service improvement, taking into account all necessary budgetary constraints;
- Future changes to be tailored to the needs of the community and the capacity and resilience of the Service; and
- The Fire Authority will continue to pursue collaborative opportunities actively with other organisations, where they offer potential advantages to the community.

4 Stage One – Base Budget Review and Committed Changes

As the first step in the budget setting process, revenue budgets have been reviewed; this has taken into account both changes that have been made to date to the 2019/20 revenue budget, and anticipated changes for 2020/21 and future years.

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

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

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

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

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

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

Please see recommendation a).

5 Stage Two – Pay and Price Contingency

Officers have used the following methodology for establishing pay and prices contingencies:

- Analyse base budget (2019/20) into the spending areas, where pay or price changes can be significant;
- Make pay assumptions for firefighters, based on a realistic expectation for the outcome of the nationally negotiated settlement;
- Make pay assumptions for other pay, based on a realistic expectation of the outcome of any outstanding negotiations;
- Take account of known issues, such as increments; Continuing Professional Development, National Insurance and tax changes; and
- Analyse the non-pay and income budgets into key elements, including those to which no inflation applies, and create an appropriate contingency.

Current Developments

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

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

In terms of prices, non pay increases have been provided for at 2.5% to reflect current levels. Where inflationary increases are higher than this level, adjustments will be accommodated within the contingency.

Conclusions

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

	Pay		Prices	
	%	£'000	%	£'000
2020/21	3.0	477	2.5	91
2021/22	3.0	499	2.5	95
2022/23	3.0	513	2.5	98
2023/24	3.0	529	2.5	100

Please see recommendation b).

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

The Authority has already agreed capital programmes for 2019/20 and earlier years. It has also agreed how these schemes are funded and the revenue consequences for future years.

This stage deals with the options available for new schemes, starting next year.

The Capital Programme from 2020/21

The schemes under consideration include appliances, operational equipment and building improvements, and are currently being reviewed by officers. The Earmarked Capital Reserve will be used to fund schemes that have already been approved, and schemes in the early years of this planning period will be funded using cash balances, in line with the Authority's Capital Strategy. Decisions around the need to borrow funds will be discussed with Treasury Services and borrowing costs have been factored into the revenue budget.

Funding for the major capital scheme at Telford is also being reviewed; the initial stages will be funded from contributions from the Major Projects Reserve, which has been built up in readiness for the major development.

In the later stages of the planning period, some borrowing may be required to fund part of the Telford improvements, and some of the other later schemes. The associated borrowing costs are currently included in the Authority's scenario planning, but again the requirement to borrow will be discussed with Treasury Services.

It should be noted that revenue consequences are limited to financing costs – any other costs need to be flagged up as part of the project appraisals. Also, the Authority is presently only committing itself to schemes that start in 2020/21. The majority of schemes are currently shown as being spent in the start year. However, experience shows that payments often slip into later years, thereby slowing the build-up of costs and resulting in revenue underspend.

The capital programme proposed will be brought to the Committee in January 2020 for consideration; it will then go forward to the Fire Authority for approval.

Appraisals for each scheme will confirm their service value, the capital cost, phasing of expenditure and revenue consequences. There is, therefore, scope for these figures to change, especially if there are any associated revenue consequences, such as running costs of property or systems.

Prudential Guidelines

In addition to the merits of the individual schemes within the final capital programme presented in February, the Authority will need to evaluate the programme in the light of its Capital Strategy, which includes Prudential and Treasury Management Guidelines. Compliance with these indicators will demonstrate the affordability, sustainability and prudence of the proposed programme of schemes.

Future Capital Schemes

The forward capital programme is being thoroughly reviewed by officers and any future requests for schemes will be considered as part of the ongoing strategic planning process. Projects for consideration will be tested to ensure that, as far as possible, they are both realistically costed and resourced; will start when scheduled; and that, where possible, they have long-term revenue saving potential.

Please see recommendation c).

7 Revised Budget Summary

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

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

8 Funding Assumptions

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

The Authority's scenario planning shows that changes in assumptions can significantly alter the financial position of the Authority. Officers will continue to update the planning model as more information becomes available.

Revenue surpluses, which accumulated following the process, have been used to fund capital schemes, therefore maintaining stable capital reserves, but these reserves will be reduced to nil as current schemes are completed. After the rollover spending round for 2020/21, there is no basis upon which to estimate the Authority's funding, therefore the assumptions made are indicative.

Forecasts for the longer term are provided within the table above as an indication of the financial position, based on a number of uncertain assumptions. Officers and Members should note this longer-term position and have plans and options available to meet a range of possible outcomes.

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

9 Financial Implications

The financial implications are as outlined in the main body of the report.

10 Legal Comment

There are no direct legal implications arising from this report.

11 Initial Impact Assessment

An Initial Impact Assessment has been completed for this report.

12 Appendices

There are no appendices to this report.

13 Background Papers

There are no background papers associated with this report.

Reserves and Funds

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 sets out the issues, which the Fire Authority will need to consider as part of its annual review of reserves and funds.

2 Recommendations

The Committee is recommended to propose to the Fire Authority that it confirms the current position of its reserves and funds.

3 Background

The current position on the Authority's provisions, reserves and funds is as follows:

	£000
Reserves	
General Reserve	577
Extreme Weather / Operational Conditions	334
Pension Liabilities and Other Staff Issues	809
Capital – Earmarked	3,222
– Major Projects	8,760
Information and Communications Technology Reserve	1,048
Income Volatility Reserve	237
Service Transformation Programme Staff Reserve	250
Service Delivery Reserve	236
Operational Equipment Reserve	250
Training Reserve	167
Building Maintenance Reserve	408
Reserves Total	<u>16,298</u>

The Authority's policy is to:

- Make provision for known and quantifiable future expenditure;
- Establish reserves for specific known and potentially significant future expenditure, which cannot be precisely quantified or scheduled;
- Establish a general reserve for known risks, which cannot be easily quantified or scheduled but could be pooled;
- Review the provisions and reserves during the budget process (the purpose of this report) and on closing the accounts;
- Consider the opportunity cost of holding reserves and balances against the opportunity cost of either lower tax demands or alternative service delivery, and consequently also hold no monies in the General Fund, unless agreed to enhance future budgets.

4 Establishment of Reserves

The level of reserves that the Authority holds has been driven by the following principles:

To fund major projects, thereby avoiding debt charges into the long term

The Authority has used reserves successfully in recent years to fund its capital programme, most notably the fire station, workshop and headquarters in Shrewsbury, and in future will be utilised for the major developments work planned at Telford. The Capital reserves and the Information and Communications Technology (ICT) reserve will continue to be used to fund the capital programme into the medium term, with any one-off savings identified used to replace funds.

To fund unexpected and undetermined expenditure that cannot be met by a reducing revenue budget

The General Reserve will cover unexpected occurrences that the Authority would not wish to budget for on a regular basis; in addition, the ICT reserve would be used to cover additional costs that were not anticipated.

To support revenue expenditure and smooth out fluctuations in the revenue budget

A number of reserves have been created to address and support some areas of the revenue budget, and reviews are currently being carried out to identify smarter use of the Authority's resources. Some examples are given below.

- The Pensions reserve will be used to fund transfers into the Pension Account, when operational staff retire on ill-health grounds. This has resulted in a significant reduction to pension revenue budgets.
- The New Equipment, Training, Building Maintenance and Extreme Incidents reserves have all been created to enable reductions to revenue budgets.

The assurance that reserves are available for unexpected and exceptional costs will allow officers to budget at lower activity levels with confidence. The Equipment reserve has been used successfully to cover additional requests that could not be covered with regular budgets.

These reserves will act as enablers to reduce the revenue budget, close any future budget deficit modelled in the planning period, and safeguard the service delivered to the people of Shropshire.

5 General Reserve

The General Reserve meets known risks that are difficult to quantify or schedule. The Authority does not wish to take tax revenue, which may never be needed, and, therefore, holds an unearmarked amount of money for unexpected risks and events. The reserve stands at £577,000, which represents around 2.5% of gross expenditure, and may be used for events such as those listed below:

Financial Risks – cashflow; changes to national purchasing;

Operational Risks – vehicle accidents; uninsurable health & safety risks; fines from uninsurable offences; other uninsurable risks;

Strategic Risks – new legislation; fines from corporate manslaughter.

A current example of the potential use of this reserve is unexpected additional expenditure relating to Brexit.

6 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 small and recurring items of capital, thereby ensuring their eventual replacement from the reserve. 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. The reserve may also be used to fund ICT capital projects.

f) Service Transformation Programme Staff Reserve

The Service Transformation Programme is a high-level programme of activities, which are being completed to ensure that the Service is best placed to meet future challenges. Funding for projects identified as part of the Programme were taken into account in the revenue budget and the capital programme, and this reserve was set up to cover the staff elements of the projects. It continues to fund transformational staffing costs, including those relating to the Strategic Alliance with Hereford & Worcester Fire and Rescue Service.

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 Corporate 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.

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 over the next three years and beyond.

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.

7 General Fund

The General Fund is simply the net balance of over and underspendings 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 £302,000 back; £62,000 for potential legal costs relating to the challenge of the transfer of governance to the Police and Crime Commissioner, £228,000 for potential firefighter back pay and £12,000 for other slipped expenditure. 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.

8 Financial Implications

The financial implications are as outlined in the report.

9 Legal Comment

There are no direct legal implications arising from this report.

10 Initial Impact Assessment

An Initial Impact Assessment has been completed for this report.

11 Appendix

There are no appendices to this report.

12 Background Papers

There are no background papers associated with this report.