

2016/17 and Later Years Revenue and Capital Budgets

Report of the Treasurer

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1 Purpose of Report

This report brings together the elements of an initial revenue budget, based on the planning assumptions recommended by the Strategic Planning Working Group, and seeks the Committee's approval for this outline to be recommended to the Fire Authority in December 2015.

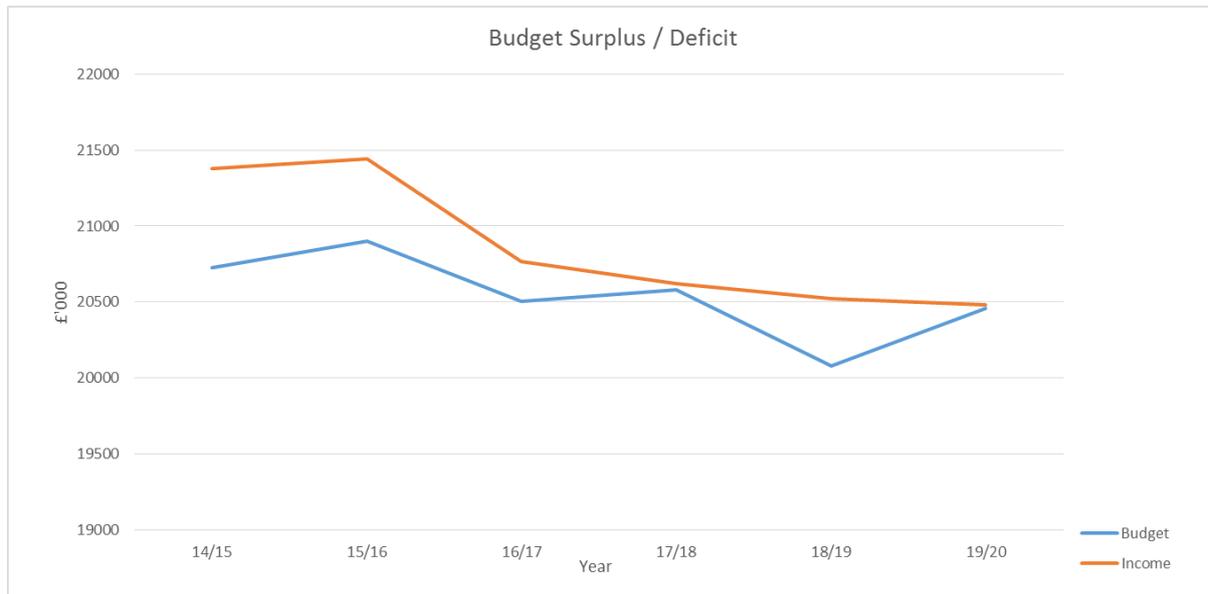
2 Recommendations

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) Approves the use of revenue balances to fund the capital programme, which will be confirmed at the Committee's February 2016 meeting, and;
- d) Approves the expenditure figures, associated with those approved assumptions, as a basis for developing the budget at the meeting of the Fire Authority on 16 December 2015.

3 Background

At its meeting in February 2015, the Fire Authority approved a revenue budget of £20.441m for 2015/16, which included a budgeted surplus of £542,000. Revenue budgets to 2019/20 were also projected, along with assumed grant and precept income, which are shown on the following page.



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

- Precept increase of 2% from 2014/15 onwards
- Pay award of 1% to 2016/17, and 2% thereafter
- Revenue Support Grant reduced by 8% from 2015/16 onwards
- Council tax base growth increased from 0.4% to 0.8%
- Council tax freeze grant for 2011/12 in base from 2016/17
- Formula grant for 2014/15 and 2015/16 from Settlement in December 2013
- Business rates received from Shropshire Council and Borough of Telford & Wrekin
- Business rates top-up grant received from Government

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.

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 2015/16 revenue budget, and anticipated changes for 2016/17 and future years.

The Authority's prudent approach to pay awards and inflation has meant that, as in previous years, the current contingency for pay and prices can be reduced. This follows pay awards, which have been lower than budgeted in previous years.

The reduction in the contingency for 2015/16 can be used to offset increases to employers' National Insurance contributions, which will be incurred as a result of the introduction of a single tier state pension on 1 April 2016.

The pay and price contingency will also be used to fund increases in pension contributions, following valuations of the Local Government Pension Scheme and the four Firefighters' Pension Schemes.

As in previous years, capital schemes for 2016/17 and onwards can be funded from revenue contributions. Therefore capital grant that has been received from central government is maintained in the balance sheet for use in future financial years.

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

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
2015/16 Budget	20,899	20,899	20,899	20,899	20,899
Committed Changes					
Leasing	-85	-85	-85	-85	-85
National Insurance changes	270	270	270	270	270
Fire pension changes	90	90	90	90	90
To be funded from base	-360	-360	-360	-360	-360
Pay contingency	-	-200	-200	-200	-200
Capital charges	-50	-50	-50	-50	-50
S31 grant reversal	55	55	55	55	55
Base Budget Review					
Retained duty system:					
Retaining fee	-30	-30	-30	-30	-30
Drills	-30	-30	-30	-30	-30
Turnouts	-50	-50	-50	-50	-50
Additional hours	50	50	50	50	50
Attendance	-30	-30	-30	-30	-30
Sick pay and modified duties	90	90	90	90	90
Business rates	-40	-40	-40	-40	-40
Revenue contribution to capital	-1,590	-1,590	-1,590	-1,590	-1,590
	1,025	875	475	475	-
Total	20,214	19,864	19,464	19,464	18,989
Total movement in base budget	-685	-1,035	-1,435	-1,435	-1,910

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 (2015/16) 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

During 2014/15, officers reviewed the assumptions on future pay and price contingencies, and held estimates for 2015/16 and 2016/17 at 1%. However, an increase to 2% was assumed for each year thereafter, to reflect possible improvements in the economic outlook.

The Chancellor in his July 2015 budget announced that public sector pay awards would be held at 1%; therefore pay contingency has been adjusted accordingly.

In terms of prices, non-pay increases have again been provided for at 2.5%. Although inflation levels are currently lower, increases on some elements of service expenditure are higher than inflation, and so it is felt that this a realistic provision for the budget as a whole.

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
2016/17	1.0	138	2.5	82
2017/18	1.0	141	2.5	84
2018/19	1.0	142	2.5	86
2019/20	1.0	143	2.5	88
2020/21	1.0	145	2.5	91

Please see recommendation b).

6 Stage Three – Capital Programme 2016/17 to 2020/21

The Authority has already agreed capital programmes for 2015/16 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 2016/17

The schemes under consideration include appliances and operational equipment, and are currently being reviewed by officers. It is, however, proposed that the capital programme in the planning period set out above will be funded by revenue balances, Earmarked Capital Reserve, or government grant. Therefore, there are no revenue consequences associated with the funding of the programme.

The capital schemes to be funded from revenue balances are shown in the table on page 4; these are based on the programme presented to the Committee in February 2015, and this will be finalised and presented to the February 2016 meeting of the Committee.

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 2016/17. 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.

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:

	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000
Previous Year's Budget	20,899	20,434	20,309	20,137	20,368
Committed Change	-685	-350	-400	-	-475
Pay and Prices	220	225	228	231	236
2015/16 and later Capital Programme	-	-	-	-	-
	20,434	20,309	20,137	20,368	20,129

8 Funding Assumptions

Officers have continued to use the Service's budget planning model, which is estimating budgets and income to 2020/21. Financial planning will forecast the position of the revenue budget to 2020/21, but with emphasis on the medium term, i.e. 2016/17 to 2018/19.

Work undertaken to date indicates that the Authority's budget planning strategy is on target, following the Public Value process, which reduced the revenue budget by around £3million. Revenue surpluses, which accumulated following the process, have been used to fund capital schemes, therefore maintaining stable capital reserves. Resources continue to be allocated to the Service Transformation Programme, to enable essential improvement schemes to be completed.

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. With further reductions in grant expected over the next five years, and inflationary pressures on existing expenditure, Members should consider how an increasing revenue budget will be funded from reducing income. The Authority's Integrated Risk Management Planning 2020 consultation process has ensured that the Service has plans in place to reshape service delivery into 2019/20 and beyond the current planning period.

On 5 October 2015, the Chancellor announced that by the end of this parliament, local authorities will retain 100% of business rates.

The key headlines at this time are:

- By 2020 authorities will retain 100% of business rates;
- Revenue Support Grant will be phased out, and existing specific grants and potential funding for new initiatives will be rolled into fully retained business rates;

- There will still be some redistribution between authorities at the start of the scheme;
- Once established, authorities will keep real growth in revenues; and
- There will still be some protection, i.e. from appeals or sharp falls in rates.

The implications of funding for fire authorities is not yet clear, although it could be assumed that, as 1% of business rate is currently received, this may increase to 2% under the new system. However, powers within the two constituent authorities to reduce the rates multiplier may impact on Fire Service resources.

Autumn Statement

The Chancellor has announced the publication of a joint Autumn Statement and Spending Review on 25 November. It is already clear that, with the protection of government departments, such as Health, Education and Defence, other departments will be expected to make substantial savings in the coming years.

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 will be superseded by a meeting of the Strategic Planning Working Group, where planning assumptions can be agreed.

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.