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Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
10 November 2016

2017/18 and Later Years Revenue and Capital Budgets

Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 255011, 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 2016.

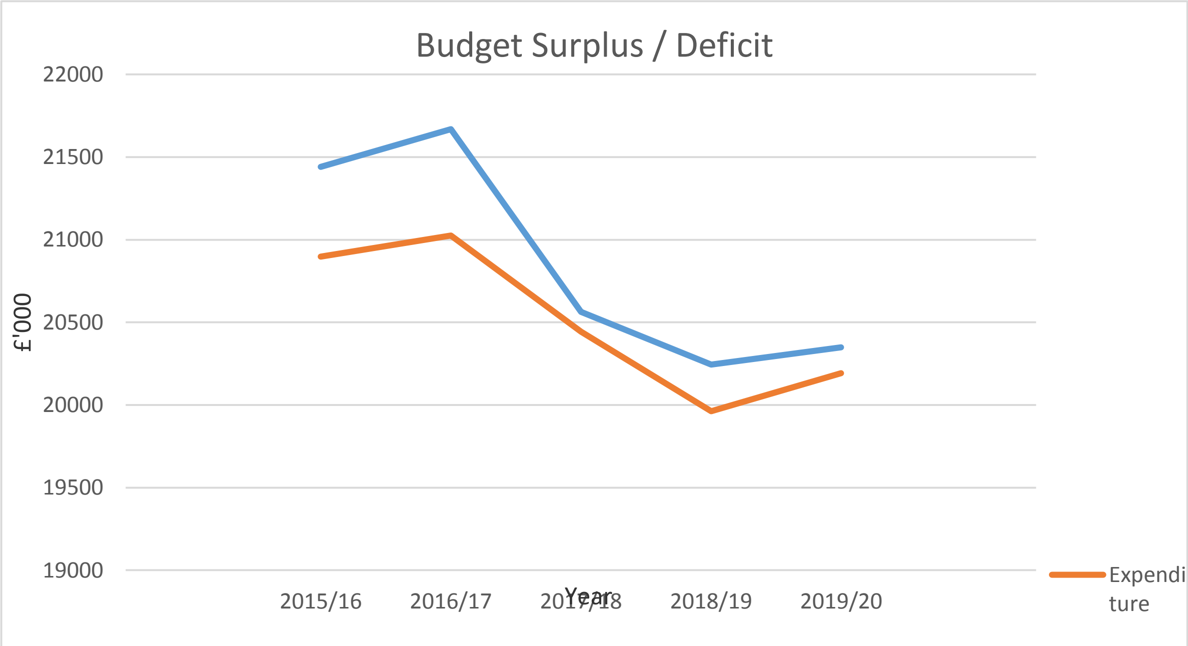
2 Recommendations

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 February 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 14 December 2016.

3 Background

At its meeting in February 2016, the Fire Authority approved a revenue budget of £21.669m for 2016/17, which included a budgeted surplus of £644,000. 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 below.



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 1.2% 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
The provisional Local Government Finance Settlement was published on 18 December 2015. As part of the Settlement, and to promote 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. Indicative allocations were published alongside the provisional settlement and were confirmed in the final settlement.

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 has been submitted. The plan was based on the assumptions agreed by the Authority while setting the budget.

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 2016/17 revenue budget, and anticipated changes for 2017/18 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 2016/17 can be used in part to offset the introduction of the proposed Apprenticeship Levy on 1 April 2017, which will see local authorities paying 0.5% of pay bills into a fund, which can then be accessed for training and development.

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.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
2016/17 Budget	**21,025**	**21,025**	**21,025**	**21,025**	**21,025**
Committed Changes					
*Apprenticeship levy	60	60	60	60	60
Pay contingency	-200	-200	-200	-200	-200
Pensions		50	50	100	100
Base Budget Review					
Wide area network additional costs	120	120	120	120	120
Professional subscriptions	20	20	20	20	20
Occupational Health	10	10	10	10	10
Fitness assessments	15	15	15	15	15
Revenue contribution to capital	-1,316 709	-1,316	-1,316	-1,316	-1,316
Total	**20,443**	**19,784**	**19,784**	**19,834**	**19,834**
Total movement in base budget	**-582**	**-1,241**	**-1,241**	**-1,191**	**-1,191**

* The Apprenticeship Levy will be a levy on UK employers to fund new apprenticeships. In England, control of apprenticeship funding will be put in the hands of employers through the Digital Apprenticeship Service. The levy will be charged at a rate of 0.5% of an employer's paybill. Each employer will receive an allowance of £15,000 to offset against their levy payment. It will be introduced in April 2017.

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

The Chancellor in his July 2015 budget announced that public sector pay awards would be held at 1%; therefore pay contingency has reflected this to the end of the planning period.

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
2021/22	1.0	146	2.5	93

Please see recommendation b).

6 Stage Three – Capital Programme 2017/18 to 2021/22

The Authority has already agreed capital programmes for 2016/17 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 2017/18

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 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.

The effects of the capital schemes on the revenue budget are shown in the table on page 4. These are based on the programme presented to the Committee in February 2016, and this will be finalised and presented to the February 2017 meeting.

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:

	2017/18	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000	£000
Previous Year's Budget	21,025	20,668	20,237	20,468	20,753
Committed Change	-582	-659	-	50	-
Pay and Prices	225	228	231	235	239
2015/16 and later Capital Programme	-	-	-	-	-
	20,668	**20,237**	**20,468**	**20,753**	**20,992**

8 Funding Assumptions

Officers have continued to use the Service's budget planning model, which is estimating budgets and income to 2021/22. Financial planning will forecast the position of the revenue budget to 2021/22, but with emphasis on the medium term, i.e. 2017/18 to 2019/20.

Work undertaken to date indicates that the Authority's budget planning strategy is on target. 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 6 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. The implications of funding for Fire Authorities are still not clear, however a consultation document was published in July this year which covered the design of the new system, the responsibilities to be devolved under the system, and the assessment of authorities' needs and the redistribution of resources.

The consultation also included the following question:

Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages?

The Authority responded:
Shropshire and Wrekin Fire Authority would support a funding approach that provides the most certainty in terms of future funding for the Service. Funding distribution should be based on those factors that directly affect risk, and the Service should also have the ability to influence future funding levels, which may prove difficult within the business rates retention scheme.

Funding Settlement

The Chancellor of the Exchequer, Philip Hammond, has announced that he will present his first Autumn Statement to Parliament on 23 November 2016.

This follows the submission on 14 October 2016 of the Authority's Efficiency Plan to the Home Office, which is required in return for a confirmed four year funding settlement. At the time of the Committee, no confirmation has been received from the Home Office.

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 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.