

Revenue Budget 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 Purpose of Report

This report incorporates the recommendations made by Strategy and Resources Committee on 26 January 2022, in relation to the revenue budget for 2022/23. The report also confirms the use of assumptions for medium-term financial planning.

2 Recommendations

The Fire Authority is recommended to:

- a) approve a revenue budget for 2022/23 and a forward financial projection to 2024/25, as set out in section 8 of the report;
- b) approve the Medium Term Financial Plan and Reserves Strategy 2022/23 to 2024/25, and
- c) 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 of the Authority.

3 Strategy and Resources Committee

At its meeting on 26 January 2022, the Fire Authority's Strategy and Resources Committee were informed of a number of developments that had taken place since the last consideration of the revenue budget for 2022/23:

- Provisional grant settlement for 2022/23 was released on 16 December 2021 – this followed the Chancellor's 3 year spending review in October, although only one year figures were announced. Grant was higher than the Authority's assumptions, however rates and top up grant remained the same in cash terms. In addition, a one year Services Grant was announced, which in part is expected to cover the planned increase in National Insurance from 1 April 2022. The effect on total income was a net increase of £200,000.

- Pensions grant is expected to continue, to offset increases in employer contributions following the revaluation of the Fire pension schemes.
- Council tax base was confirmed at £169,494.63, an increase of 2.06% on 2021/22. This has recovered from a much lower growth of 0.2% last year.

The Committee was advised that the assumption around precept increase had been held at 1.99%. This was due to the impact of debt charges on the revenue budget following consideration of the capital programme, and the launch of six strategic 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 six reviews are:

- On Call Sustainability Review
- Efficiency Review
- Operational Technology Review
- Operational Resource Review
- Performance and Improvement Review
- Alliance Command, Control and mobilisation

Additional funds were added to the revenue budget, both to provide capacity to carry out the reviews, and to consider the ongoing resource requirements as the reviews are completed.

In addition, inflation is running at the highest level in decades which will potentially have a significant impact on pay and prices, and supply chain disruption is creating financial pressures.

The Committee subsequently considered the capital programme and its revenue consequences, and the resulting debt charges were added to the revenue budget.

In terms of medium term financial planning, members were reminded of the major effect that the pandemic had 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 Authority did not suffer any issues around cash flow as grants were paid early by government departments. Losses from council tax growth and collection fund balances were mitigated by additional grants, and the ability to repay remaining deficits over three years.

The budget position for 2022/23 has been updated to reflect the information available following the settlement. Although the Spending Review covers three financial years, the provision of a one year cash settlement limits the ability for the Authority to budget with certainty into the medium term.

Assumptions have been revised to better reflect the position following the last three single year settlements. However, the Fair Funding Review is yet to be carried out and the outcome is uncertain for individual authorities. In addition, changes to the precept referendum spending limits for the lower quartile of fire authorities in 2022/23 may indicate further changes to this funding stream into the medium term.

As in previous budget cycles, the years following 2022/23 are estimates only, and will be updated when further information becomes available.

The position following these developments was as follows:

	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000
Revenue budget proposed by the Committee	24,111	24,740	25,413	25,904
Capital programme costs (cumulative)	67	178	385	600
Total	24,178	24,918	25,798	26,504
Funded by:				
Revenue Support Grant and Business Rates Income	5,284	5,431	5,527	5,625
Other Grants	928	686	686	686
Council Tax	18,012	18,714	19,444	20,201
Collection Fund	-93	-93	0	0
Total	24,131	24,738	25,657	26,512
Surplus / -Deficit	-47	-180	-141	8

4 Changes to the Revenue Budget

Training – Additional Driving Instructor

The Department for Transport have mandated the impending introduction of ‘Exemptions from speed limits’ Section 19 of the Road Safety Act (2006), this will replace section 87 of the Road Traffic Regulation Act (1984). As a result of this amendment, it will make it an offence to exceed speed limits for emergency purposes unless a vehicle’s driver “has satisfactorily completed a course of training in the driving of vehicles at high speed”.

The Service's response strategy allows drivers to exceed the speed limit when responding on blue lights. As a result of this the Service must be able to evidence that drivers have undertaken appropriate training if they wish to claim the legal exemption stated above to exceed the speed limit on public roads.

The National Fire Chiefs Council (NFCC) Emergency Response Driver Framework aligns with this change in legislation; in order for the Service to comply with this framework, driver training will need to increase substantially. A number of options for accommodating this training have been reviewed, with the most effective being the recruitment of an additional driving instructor.

It is proposed that the cost of this additional post (£49,000) is added to the revenue budget from April 2022.

Capital Programme

Capital charges have been added to the revenue budget following recommendation from Strategy & Resources Committee and approval by the Fire Authority.

Following consideration of a further capital scheme earlier in the agenda, the capital charges will be added to the revenue budget.

5 Further Developments

Business rate income figures have now been confirmed by Shropshire Council and Telford & Wrekin Council, although they are subject to revision in the last two months of the financial year. Total income from the two authorities is £110,000 less than the estimated rates income included in the settlement in December. However, the grants receivable to compensate for business rates discounts are higher than those estimated within the settlement.

Collection fund balances for council tax and business rates have been confirmed:

	2022/23 £'000	2023/24 £'000	2024/25 £'000
Council Tax			
Surpluses receivable (inc spread from 21/22)	421	-68	-
Business Rates			
Deficits payable (inc spread from 21/22)	-311	-25	-

Section 31 rates related grants have also been confirmed at £509,000, and the planning model has been adjusted to reflect these grants.

6 Government Finance Settlement

The finance settlement is yet to be debated in Parliament.

Should any changes occur to the revenue budget being approved, members are asked to delegate the necessary amendments to the Treasurer, in consultation with the Chair and the Vice Chair.

Section 4.2 of the Authority's Scheme of Delegations states:

"In agreement with the Chief Fire Officer, and after consultation with the Chair and the Vice Chair, in cases of urgency to approve virement, supplementary revenue and capital votes not otherwise covered by the Treasurer's delegated authority. Action taken under this delegation must be reported to the next meeting of the Authority."

7 Consideration of Precept Increase 2022/23

The Authority's planning model incorporates a precept increase of 1.99% for 2022/23, in line with the referendum spending limit. The current Band D precept is £104.20, and a precept increase of 1.99% would raise this to £106.27, an increase of £2.07 per year.

The table below exemplifies several different increases for members' consideration.

Precept Increase	Surplus / -Deficit			
	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
1.99% (current)	182	-229	-190	-40
1.50%	96	-319	-283	-137
1.0%	7	-410	-378	-236
No increase	-169	-594	-569	-434

The current proposal shows a small balance of funding over proposed expenditure in 2022/23, followed by deficits in the later years. These will be revised as the budget model is updated. If the deficits remain unchanged as future settlements are announced, contributions from reserves will be made to balance the budget.

Other options show the effect of a lower precept increase. Reductions in spending or in current service provision would initially be sought to remove deficits in later years.

The proposed investment following strategic reviews, currently included in the revenue budget, is to prevent degradation in service delivery; not investing at this stage would have the following impact:

- No investment in On Call sustainability would ultimately culminate in a reduction of service provision
- It would not be possible to make the technological improvements to meet the requirements of HMICFRS and audit
- Technological opportunities to improve incident command would not be achieved

Although some one off investment could be funded through reserves, this is not sustainable in terms of funding or maintaining an efficient and effective Service. This approach would also compromise the levels of reserves held for mitigating identified future risks.

8 Proposed Final Budget Package

The position for 2022/23 and into the medium term can now be 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

9 Medium Term Financial Plan and Reserves Strategy

The Medium Term Financial Plan (MTFP) is a crucial part of the Service's suite of integrated strategies and demonstrates the Authority's financial stability and resilience. The Reserves Strategy forms part of this plan, smoothing expenditure, building up funds towards capital projects, and dealing with risk and unexpected events.

The MTFP is appended to the report; the Reserves Strategy has been updated to reflect the Authority's medium term position and the financial strategy will be updated following approval of the revenue budget for 2022/23.

The Authority is asked to consider and approve the strategies, delegating any changes to the Treasurer, in consultation with the Chair and the Vice Chair.

10 Financial Implications

There are no financial implications arising from this report other than those discussed within the report.

11 Legal Comment

There are no legal implications arising directly from this report.

12 Appendix

Draft Medium Term Financial Plan and Reserves Strategy 2021/22 to 2024/25

13 Background Papers

There are no background papers associated with this report.



Shropshire and Wrekin Fire and Rescue Authority

Medium Term Financial Planning 2021/22 to 2024/25

Context

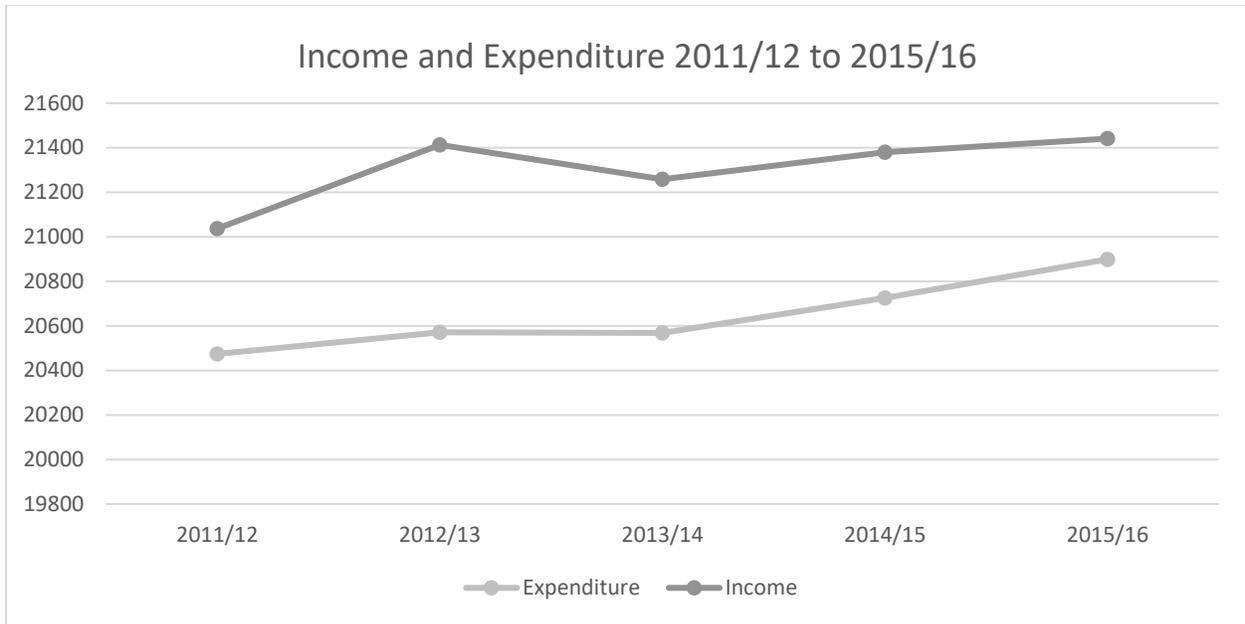
The Fire Authority has been successful over the last eight years, during a period of major public spending cuts, in identifying and implementing revenue budget reductions. Effective financial planning has successfully combined revenue budget cuts, a long term precept strategy, and effective use of reserves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

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Reserves Strategy updated
July 21

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.

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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:

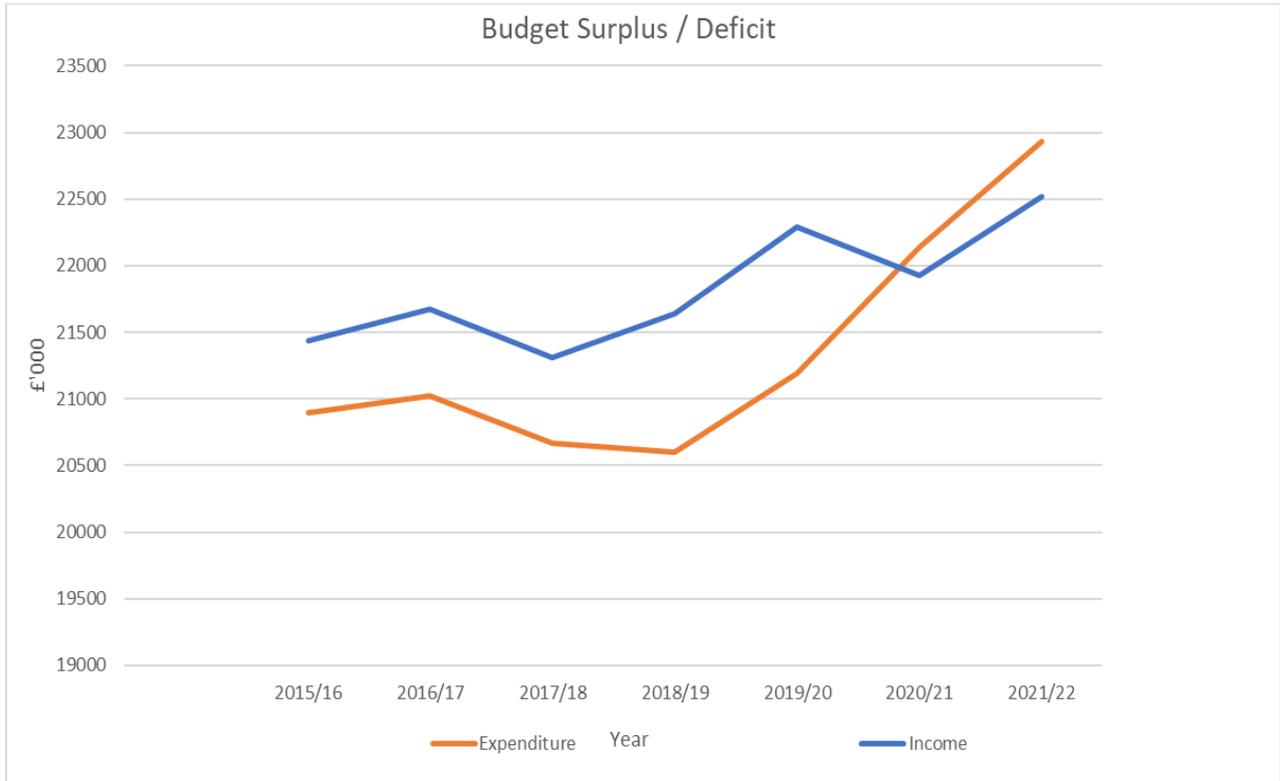
- The employer cost cap was breached and an increase in employer contributions was required to ensure that scheme liabilities were being covered.
- A notional pot of assets is used to calculate the appropriate level of contributions to be paid into the scheme to meet the cost of accruing benefits; the 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.

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July 21**

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.



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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 to 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.

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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:

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- 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 to 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

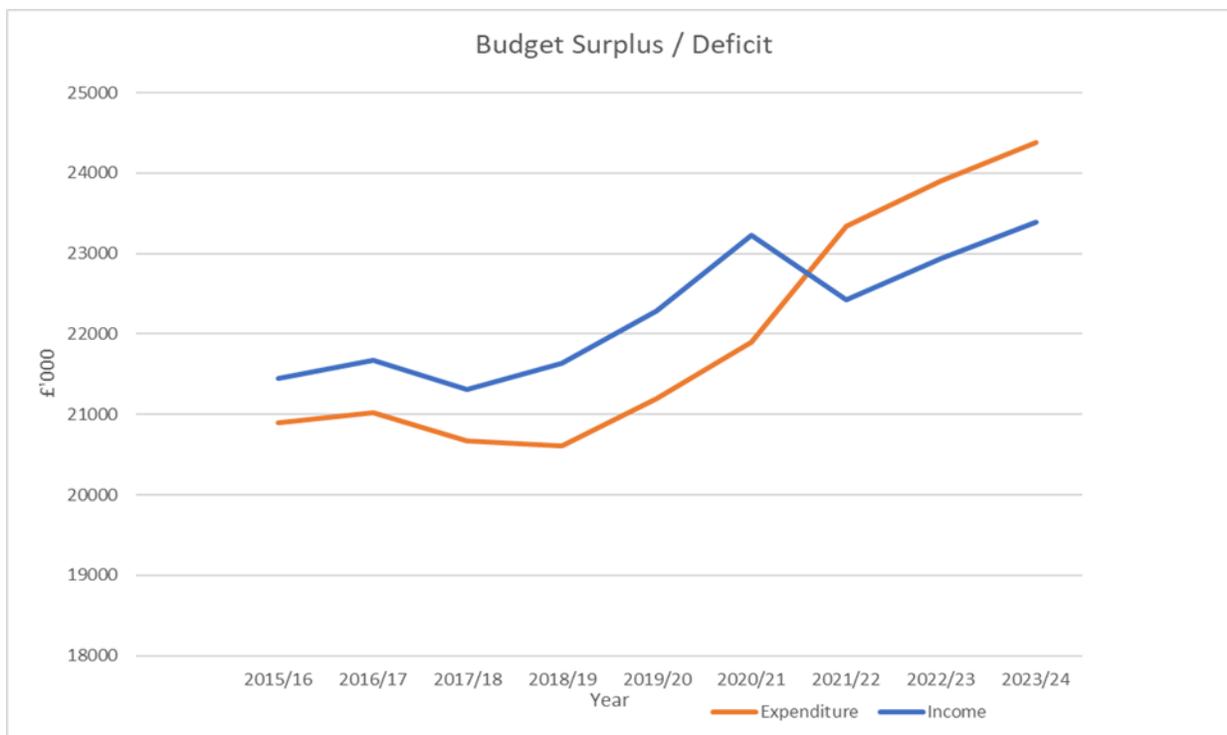
Current assumptions around cost pressures and funding streams at this time are shown in the table below. Officers and members recognise the uncertainty surrounding future years and indicative assumptions for the following two years are also shown.

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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.

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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

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	Assumptions (Changes in bold)	Surplus / -Deficit			
		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

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	Options (Changes in bold)	Surplus / -Deficit			
		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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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	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

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