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Shropshire and Wrekin Fire and Rescue Authority
15 February 2023

# Revenue Budget 2023/24

## 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 25 January 2023, in relation to the revenue budget for 2023/24. 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 2023/24 and a forward financial projection to 2025/26, as set out in section 7;
b) approve the Medium Term Financial Plan and Reserves Strategy 2023/24 to 2025/26, 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.

## 3 Strategy and Resources Committee

At its meeting on 25 January 2023, 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 2023/24:

- Provisional grant settlement for 2023/24 was announced on 15 December 2022 – although the Spending Review is for a three year period, the settlement provided numbers for one year only, although some indications for 2024/25 were given in the government's policy statement released on 12 December.

The settlement was more favourable than anticipated:

- Revenue Support Grant increased by 10.1%
- Rates and top up grant increased by 6.75%
- Rural services grant and service grant have continued
- S31 grant for rates compensation is £340k higher than expected.
- Council tax referendum spending limit for 2023/24 confirmed at £5 for the Fire sector, reverting to 3% in 2024/25.

- 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 173,421.98, an increase of 2.32% on 2022/23.

The Committee were reminded that the increase in precept flexibility was due in part to co-ordinated lobbying by local members of Parliament, National Fire Chiefs Council, the Local Government Association, and the Home Office, as well as members of the Authority. The more favourable settlement allowed the Authority to re-introduce some modest growth into the revenue budget, with priority given to recommendations following the On Call Sustainability Review and the creation of technical advantage to support service delivery and improvement into the medium term.

Members were informed that fire and rescue services in England will be set efficiency targets against non-pay budgets, and these will be reported to the Home Office as part of an Efficiency and Productivity Plan. It is not expected that these savings will be found through a reduction in frontline staff, and any savings should be reinvested.

Some of the efficiencies and productivity improvements will be identified through the introduction of technology into areas that support frontline delivery. Therefore it is essential that investment is made into technological improvements to continue the Service's transformation.

Another area of essential investment for the Service is the implementation of the recommendations of the On Call Sustainability Review, to ensure that sector leading availability is maintained and, to aid recruitment and retention, the role of the on call firefighter remains as attractive and fulfilling as possible.

Members were presented with a range of precept increases for consideration, ranging from 4.6% (£5.00) to 2.99%. A precept increase of £5.00, or 10p per week, would enable the Authority to cover inflationary pressures and also service its capital programme, but would still require a contribution from reserves in later years, or a reduction in expenditure.

| | Surplus / (Deficit) prior to capital charges £'000 | | |
|---|---|---|---|
| **Precept Increase** | **2023/24** | **2024/25** | **2025/26** |
| £5.00 – 4.6% | 280 | 148 | 338 |
| £4.00 – 3.75% | 124 | -17 | 166 |
| £3.50 – 3.3% | 41 | -104 | 75 |
| £3.18 – 2.99% | -17 | -163 | 12 |
| | | | |

Precept increases lower than the maximum of £5.00 would require higher contributions from reserves which are not sustainable. In addition, any growth would have to be reconsidered.

After consideration of the consequences of the precept increase options, and the Authority's medium term budget position, the Committee agreed to recommend a precept increase of 4.6%, or £4.89.

Members also recommended the addition of £40,000 to the revenue budget, to return the Service to its original planned hydrants inspections programme with the current provider.

The summary position of the budget discussed by the Committee is shown below:

| | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
|---|---|---|---|
| **Expenditure budget proposed by the Committee** | **-25,694** | **-26,831** | **-27,749** |
| **Funded by:** | | | |
| Revenue Support Grant and Business Rates Income | 5,569 | 5,725 | 5,840 |
| Other Grants | 1,181 | 988 | 988 |
| Council Tax | 19,277 | 20,225 | 21,219 |
| Collection Fund | -93 | 0 | 0 |
| **Total** | **25,934** | **26,938** | **28,047** |
| **Surplus / -Deficit** | **240** | **107** | **298** |

## 4 Further Developments

### Capital Programme

Capital charges have been added to the revenue budget following recommendation from Strategy & Resources Committee and approval by the Fire Authority of the Service's capital programme from 2023/24 to 2027/28.

### Business Rates and Collection Fund

Business rates 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 £38,000 less than the estimated rates income included in the settlement in December.

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

| | **2023/24 £'000** |
|---|---|
| **Council Tax**<br>Surpluses receivable (inc spread from 21/22) | 166,119 |
| **Business Rates**<br>Deficits payable (inc spread from 21/22) | 3,229 |

### Section 31 Grants

Section 31 rates related grants have also been confirmed at £1,097,000, and the planning model has been adjusted to reflect these grants. This is substantially higher than in previous years, and also higher than the amount included in the Authority's scenario planning. This is due to an increased level of compensation for business rates discounts awarded.

It is not yet clear how much these s31 grants will be in future years, so this level of increase has not been factored into future planning. Therefore, it is proposed that this one off increase in income is used to create a revenue contribution of £500,000 to the capital scheme for major refurbishments at Telford. This will contribute towards the increased costs that have been identified on this scheme, and will continue with the Authority's aim to reduce borrowing costs for local tax payers in future years.

## 5 Precept Increase 2023/24

Following the recommendation from Strategy & Resources Committee, the Authority's planning model incorporates a precept increase of 4.6% for 2023/24, in line with the referendum spending limit. The current Band D precept is £106.27, and a precept increase of 4.6% would raise this to £111.16, an increase of £4.89 per year.

The table below exemplifies options for several different increases, and the deficits estimated in years two and three demonstrate the requirement for the option recommended.

| | **Surplus / (Deficit) £'000** | | |
|---|---|---|---|
| **Precept Increase** | **2023/24** | **2024/25** | **2025/26** |
| £5.00 – 4.6% | 246 | -269 | -284 |
| £4.00 – 3.75% | 90 | -433 | -456 |
| £3.50 – 3.3% | 7 | -520 | -547 |
| £3.18 – 2.99% | -179 | -579 | -610 |

## 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 Proposed Final Budget Package

The position for 2023/24 and into the medium term can now be summarised as follows:

| | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
|---|---|---|---|
| **Expenditure:** | | | |
| Budget | 26,317 | 27,207 | 28,331 |
| Surplus / -deficit | 246 | -269 | -284 |
| **Total budget** | **26,563** | **26,938** | **28,047** |
| | | | |
| **Funded by:** | | | |
| Grant and business rates | 7,116 | 6,713 | 6,828 |
| Business rates collection fund | 3 | | |
| Council tax | 19,278 | 20,225 | 21,219 |
| Council tax collection fund | 166 | - | - |
| | | | |
| **Total** | **26,563** | **26,938** | **28,047** |

## 8 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 2023/24.

Assumptions currently in place for medium term planning are as follows:

- Revenue Support Grant (RSG) to increase by 5% in 2024/25, reducing to 2% thereafter
- Business rates and top up grant to increase by 2%
- Rural Services Delivery Grant and Service Grant to continue at current levels
- S31 grants for rates compensation to be included at £500,000 from 2024/25
- Precept increases of 2.99% from 2024/25
- Pay awards at 4% from 2024/25.

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.

## 9 Financial Implications

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

## 10 Legal Comment

There are no legal implications arising directly from this report.

## 11 Appendices

Draft Medium Term Financial Plan and Reserves Strategy 2023/24 to 2025/26

## 12 Background Papers

There are no background papers associated with this report.

# Shropshire and Wrekin Fire and Rescue Authority

# Medium Term Financial Planning 2023/24 to 2025/26

## Context

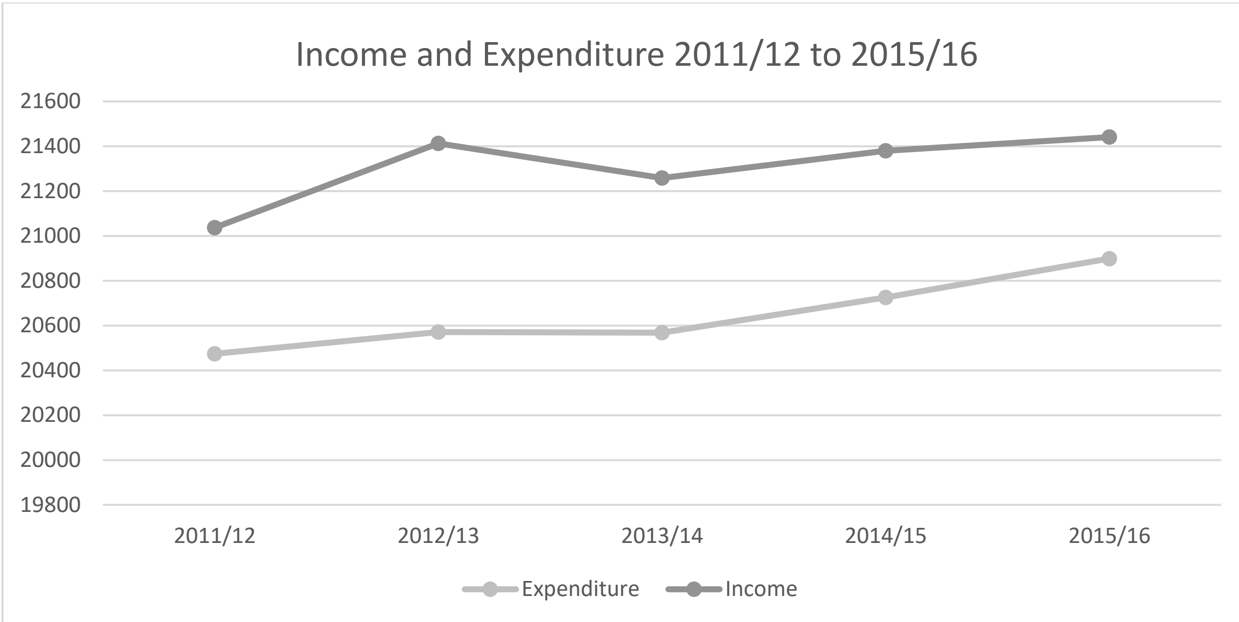
The Fire Authority has been successful over the last decade, during a period of major public spending cuts, in identifying and implementing revenue budget reductions. Effective financial planning has successfully combined revenue budget cuts, a long term precept strategy, and effective use of reserves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

## 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 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 continued, 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, collaborated with Hereford and Worcestershire Fire Authority to form a strategic alliance. This provided the advantages associated with large organisations without losing the agility of being two small, lean and community focused fire and rescue services.

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 developed a plan to form a long and sustainable strategic alliance that would 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.

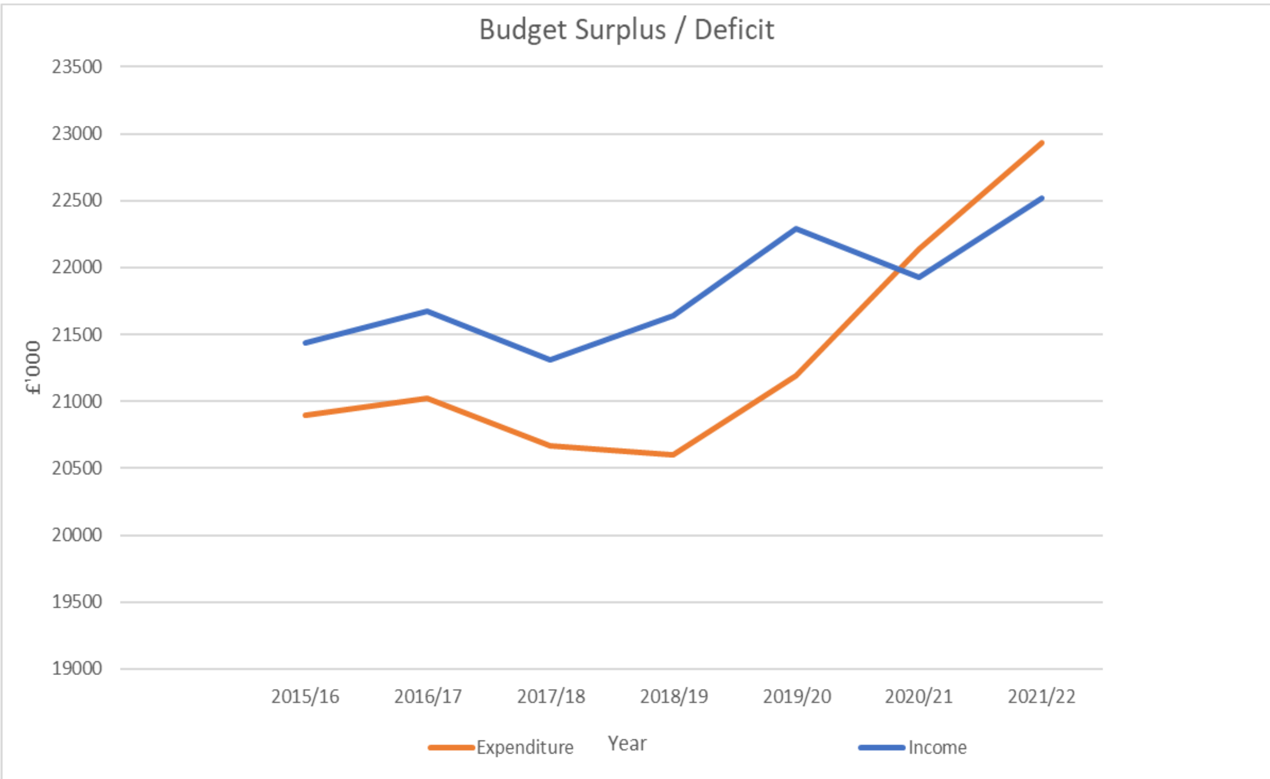
These two factors affected the valuation of the Fire schemes in the following ways:

- 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.

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.



## Spending Rounds 2020/21 and 2021/22

Following the Spending Review for 2016/17 to 2019/20 the certainty of a four year settlement, the next 2 years were single year settlements.

**2020/21**

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, and a one year settlement was undertaken.

It was 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 the 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 was based had been carefully considered to ensure that they reflected the best estimated outcomes for the Fire Authority.  Whilst it was 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 was still a great deal of uncertainty into the medium term.  The Comprehensive Spending Review and Fair Funding Review were still due to be carried out during 2020, and funding around increases in pension contributions was also undetermined.

In addition there was scope for the revenue consequences of the capital programme to be reduced; a number of the schemes on the programme were included as outcomes following operational reviews, and it was likely that some of these would be less substantial once the reviews had been carried out.

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 became available.

**The Service and the Covid 19 Pandemic – 2020/21**

The 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 undertook significant work to ensure it was 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.

The Authority was not affected by cash flow issues in 2020/21 as a result of the pandemic. Government grant was paid to cover Covid 19 related expenditure, and the Income Volatility Reserve remained at an increased level.

The Authority successfully bid for a second tranche of Covid grant in Feb 2021, which was paid in early 2021/22.

Whilst funding was sufficient to ensure that service provision was unaffected in 2020/21, there were concerns about future funding streams, particularly around collection fund balances and council tax base growth.

**2021/22**

For the financial year 2021/22, due to pressures relating to the pandemic, another one year settlement was announced. This included a real terms increase in grant, council tax referendum limit held at 2%, and a freezing of public sector pay for 2021/22, with an exception for those earning less than £24,000.

This short term settlement meant that the Authority had further uncertainty in its planning process into the medium term. 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 of changes in planning assumptions. These 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 around the mid to late years of the planning period, members were advised to set a budget for 2021/22 only.

Following consideration of the options presented, the Authority approved a revenue budget and a precept increase of £1.95 per year, or 1.99%.

**The Service and the Covid 19 Pandemic – 2021/22**

The Authority was subject to a net deficit on collection fund for business rates in 2021/22. During the year, government grant was paid to cover 75% of the deficit, with the remaining 25% repayable over 3 years rather than the usual 1 year.

Similarly, due to a large number of households being supported with payment of council tax, 2021/22 saw only a slight increase in council tax base. Again, government grant was paid in 2021/22 to cover the loss of tax base growth.

The Authority had a small balance of Covid grant remaining at the end of 2021/22, to cover any residual spend relating to the pandemic in the following year.The Government distributed the remaining balance of Covid funding to local authorities in early 2022/23.

**Pay Award 2021/22**

In line with the Spending Review announcement in 2021/22, no pay contingency was built into the base budget, with 2% built in for future years. However, pay awards were negotiated for both operational and support staff. These were found from existing balances and underspends during the year, but this placed further pressure on the revenue budget as provision was made for this award from 2022/23.

## Spending Review 2022/23

The Chancellor Rishi Sunak reverted to a multi year spending review from 2022/23, moving away from the short term settlements as a result of Brexit and Covid. It was recognized that the Chancellor had a difficult balancing act, dealing with a shortfall in public finances while supporting families and businesses hit hard by the pandemic.

The review headlines were:

- A real terms rise in spending for every department
- Higher inflationary pressures for the coming years
- Public sector pay to revert to usual pay setting process
- Completion of the review into business rates, which confirmed that the current system is to be retained with more valuations
- Further delay of the Fair Funding review

Council tax referendum limits remained at 2%, with fire authorities with a precept in the lower quartile given a flexibility of £5 or 2%, whichever was higher.

The grant assumptions used in the Service's strategic planning were reviewed and updated by members:

- Revenue support grant was previously expected to reduce to nil by 2026/27, as there were reductions year on year in previous years. However the two single year reviews saw grant increases, therefore the assumption was amended to an annual increase of 2%. Similarly, Rural Services Delivery Grant was anticipated to end in 2019/20 – this was now expected to continue.
- Business Rates compensation grants were factored into the budget for the planning period

Other assumptions remained unchanged:

- Rates income to increase by 2% from 2023/23 and thereafter
- Top up grant to increase by 1.5% from 2022/23 and thereafter
- Council tax base to increase annually by 1.87%
- Pay award of 3% for 2022/23 and 2023/24, reducing to 2% thereafter
- Council tax referendum limit of 2%

In terms of collection fund balances, the impact on the authority's budget strategy was not clear. Officers maintained a prudent approach to including any one-off income into the budget model, and the Income Volatility Reserve was increased to cover any shortfall.

## Provisional Grant Settlement 2022/23

The provisional finance settlement was announced on 16 December 2021. Although the Spending Review is for a three-year period, the settlement provided numbers for 2022/23 only. This limited the ability of the Authority to budget with certainty into the medium term.

Headlines were:

- Revenue Support Grant increased by just over 3%
- Rates and top up grant remained the same in cash terms – officers assumed an increase of 2% and 1.5% respectively
- Rural Services Delivery Grant continued in cash terms, in line with revised assumptions
- A one off 'Service Grant' of £270,000 was awarded, which in part was expected to cover increases in National Insurance for the Health and Social Care Levy (as this is an ongoing cost, it was expected that the grant would be reallocated within the settlement from 2023/24).
- Confirmation was received that the pensions grant would continue to be payable, to offset increases in employer contributions following the revaluation of the Fire pension schemes,

## Future Growth and Investment

A number of departments were being reviewed during 2022/23 and it was likely that growth posts would be requested to ensure that the Service could continue to meet its objectives. In addition, as part of the Authority's new Service Plan, several reviews were to be launched in the next financial year, to run through the four-year strategic planning period. These included reviews of the Service's operational resource requirements, the sustainability of its on call service, the productivity and efficiency of the Service and how its resources are used, and how they are identified, measured and reported.

The six reviews are:

- On Call Sustainability Review
- Efficiency Review
- Operational Technology Review
- Operational Resource Reviews
- Performance and Improvement Review
- Alliance

It was essential that these projects and reviews were adequately resourced, and capacity built into the revenue budget to ensure that they were completed effectively. It was proposed that £200,000 was allocated to the Service Transformation Board Staff Reserve in 2022/23.

Consideration was also given to the ongoing resource requirements as these reviews progressed. For example, it was likely that the On Call Sustainability Review findings would require revenue investment in the service, whereas others such as the Operational Resource Review may have impacted upon the future capital programme and its associated debt charges. It was proposed that an initial investment of £150,000 was factored into the financial planning from 2023/24, with a further £150,000 from 2024/25. This was designed to flex in line with future finance settlements.

The Fire Authority were presented with an expenditure position once debt charges for the approved capital programme were added, and also an additional growth item was considered. In addition, final collection fund balances and grants were incorporated into income.

Members considered a table which exemplified a number of options for precept increase:

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

A number of areas were discussed whilst the precept increase was being considered:

***What levels of reserves would be required to meet the budget for 2022/23, if the Authority did not agree a precept increase of 1.99%?*** The Income Volatility Reserve could be utilised to cover the shortfall in the first year, however this would need to be found in each subsequent financial year.
***Could the strategic reviews still go ahead if costs were being met through the Income Volatility Reserve?*** A nil precept increase in 2022/23 would result in a structural shortfall in income for each successive year, regardless of the increase applied in the following year. Ongoing costs of the projects therefore could not be met from the reserve. Review and investment of the Service is critical to maintain service delivery and avoid degradation; the proposed reviews would need to be reconsidered with no ongoing funding.
***As the majority of the Authority's funding comes from precept, does it need to lobby the Government on this issue?*** The Authority had been part of a national lobby for a £5 increase in precept for the Fire sector, and was also active in the discussions around lack of funding, particularly in rural areas.

***There is a surplus on collection funds at the end of 2021/22 – would such surpluses be ongoing?*** Balances on collection funds could be in surplus or in deficit at the end of the financial year, depending on the collection rate. As this could not be guaranteed, officers budgeted for neither a surplus nor a deficit.

Following a great deal of debate and consideration over two meetings, the Authority approved a revenue budget and a precept increase of £2.07 per year, or 1.99%.

## Spending Review 2023/24

## 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.

| **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 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.

| | |
|---|---|
| **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. |

## 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.

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.

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.

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.

| | 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** |