


Report to	Executive Panel	
Date	21 October 2019	
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Subject	Budget Setting 2020/21	

PURPOSE OF REPORT

- 1 This report is to present to Members the budget process, planning assumptions and timescales for setting the Fire and Rescue Authority's (FRA) revenue budget for 2020/21.

EXECUTIVE SUMMARY

- 2 The FRA is required to set the revenue budget for 2020/21 at its meeting on 16 December 2019. The preliminary work required to establish the base budget has commenced which includes a review of current expenditure levels, key planning assumptions and risks. A summary is provided in Appendix 1.

RECOMMENDATIONS

- 3 Members are asked to:
 - (i) note the planning assumptions being used to set the revenue budget for 2020/21; and
 - (ii) note the deadline for approval of the 2020/21 revenue budget by the FRA.

BACKGROUND

- 4 Each year the Authority is required to set a balanced revenue budget which must be approved before the start of the financial year. The FRA is supported by a Planning Working Group which provides recommendations on the strategic planning assumptions for the forthcoming financial year.
- 5 The Planning Working Group met on three occasions between January and March 2019 to develop recommendations for the annual Improvement and Well-being Plan for 2020/21. The recommendation from the Planning Working Group was that the Authority's public consultation this year should focus on the development and adoption of an Environmental Strategy for delivery from April 2020 onwards.

- 6 The budget assessment has been completed using existing service delivery models. The initial assessment for 2020/21 was presented to the FRA in December 2018 and indicated a net budget requirement of £35.95m. This represents an annual increase of £0.71m which is 2% of net expenditure.
- 7 Following today's meeting of the Executive Panel, work will commence to liaise with the constituent local authorities to ensure that the Authority's budget requirements are fully communicated.

INFORMATION

- 8 Following further review, the initial planning assessment has been confirmed and additional information is provided within Appendix 1. The 2020/21 draft revenue budget will be considered for approval by the FRA at its meeting on 16 December 2019.
- 9 Employee costs account for 72% of expenditure and the current planning assessment assumes a pay award of 2%. It is noted that the national pay negotiations have not been concluded and this represents a significant risk at this time. It is estimated that a further £0.25m would be required for each 1% above the planning assumption.
- 10 A further risk to employee costs relates to the employer pension contributions for firefighters which increased during 2019/20 following a revaluation by the Government Actuary's Department. The valuation of pensions is a complex area involving long term projections. Following a change to the assumptions the employer contributions for unfunded schemes increased significantly in 2019/20. The Welsh Government provided initial support and a decision on the longer term position was expected in the Spending Review announced in September 2019. The position has not yet been confirmed for 2020/21 onwards and this represents a risk of £1.3m. At this time, the budget assumption is that funding will be received.
- 11 An inflationary increase has not been applied to non-pay budgets for a number of years. The current assumption is that an increase of 2% will be required to meet unavoidable cost pressures. There are a number of risks within non-pay budgets including uncertainty over Welsh Government funding for the national Emergency Services Network.
- 12 Capital financing costs include the costs of borrowing and revenue charges for using capital assets. A review of the capital programme has been undertaken to support the management of these costs. Uncertainty remains over the cost of borrowing and an earmarked reserve is held to mitigate the impact of unexpected fluctuations.

IMPLICATIONS

Well-being Objectives	This report links to the Authority's Improvement and Well-being Objectives. It reports on the financial viability of the Authority.
Budget	The current estimate is that net expenditure will increase in 2020/21 by £0.71m.
Legal	The Fire and Rescue Authority has a legal duty to set a balanced budget based on realistic planning assumptions.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	The key risks to the 2020/21 budget have been outlined in Appendix 1.

Summary of planning assumptions and risks

Heading	Planning assumptions used in budget setting	Risks
Employee costs	<ul style="list-style-type: none"> • The staffing budgets have been formulated on existing service delivery models. • The current working assumption is that pay inflation will be 2% • No increases in national insurance contributions are anticipated • It is assumed that the increases to the employer pension contribution rates arising from the Government Actuary's Department valuation will continue to be grant funded by the Welsh Government. 	<ul style="list-style-type: none"> • The National Joint Council (NJC) has not yet reached agreement on the firefighter pay award for the period 2017/18 to date. • The Joint Negotiating Committee for Local Authorities has not yet published proposals for the 2020/21 pay award. • The budget planning assumes normal levels of activity. If spare conditions occur budget pressures will be experienced. The working assumption is that the General Fund would be utilised in the first instance. • The Welsh Government has not yet confirmed that the grant to support the increase in employer contributions for the firefighter pension scheme will continue. The costs for 2020/21 are estimated to be £1.3m. • In December 2018, the government lost its appeal to the legal challenge of the transitional pension arrangements for firefighters. The matter will now revert to an Employment Tribunal for rectification. The financial outcome is unknown and no provision has been made. • Following the public inquiry into the Grenfell tragedy there may be changes to building regulations and associated responsibilities. It is not yet known how these may impact on the Fire and Rescue sector and no provision has been made.

Heading	Planning assumptions used in budget setting	Risks
Non Pay	<ul style="list-style-type: none"> Non pay budgets have remained unchanged for a number of years and cost pressures have been mitigated through savings. The initial planning assessment was for this strategy to largely continue with an increase of 0.8%. Due to ongoing unavoidable costs pressures which include the rise in fuel costs, backlog maintenance, national non domestic rates, insurance and utilities a budget increase of 2% is proposed. Residual costs pressures will continue to be met from cost management across this heading. 	<ul style="list-style-type: none"> Whilst the Service continues to review non-pay costs and strives to manage cost pressures within the planned budget this remains an area of risk due to ongoing pressures within the area of information technology. In particular, the national procurement of an Emergency Services Network has been delayed and the existing contract extended. The assumption is that the current revenue support received from the Welsh Government of £0.4m will continue although this has not yet been confirmed. The exit from the Economic Union remains an area of uncertainty across the economy. No provision has been made within the budget for cost increases arising from inflation or exchange rate risks. In the short term the General Reserve would be utilised although this would not be sustainable in the longer term. The outcome from the consultation on the development of an Environmental Strategy may give rise to additional expenditure. No costs have currently been factored into the base budget for 2020/21.

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Capital Financing	<ul style="list-style-type: none"> The original planning assessment included a capital programme for 2019/20 of £3.1m resulting in a capital financing requirement of £3.3m. The capital programme has been revised and the current forecast is a capital financing requirement of £3.2m with the reduction being used to fund the cost pressures arising in non-pay. 	<ul style="list-style-type: none"> The potential increase in interest rates is unknown and may exceed planning assumptions.
Income	<ul style="list-style-type: none"> Income budgets have been reviewed and set in line with previous years. 	<ul style="list-style-type: none"> No specific risks have been identified.