

Report to	Executive Panel
Date	22 October 2018
Lead Officer	Ken Finch, Treasurer to the Authority
Contact Officer	Helen MacArthur (01745 535258)
Subject	Budget Setting 2019/20



PURPOSE OF REPORT

- 1 This report is to present to members the process, planning assumptions and timescales for setting the Fire and Rescue Authority (FRA) revenue budget for 2019/20.

EXECUTIVE SUMMARY

- 2 The FRA is required to set the revenue budget for 2019/20 at its meeting on 17 December 2018. The preliminary work required to establish the base budget has commenced which includes a review of current expenditure levels, key planning assumptions and risks. The findings from this work will be examined at a member's budget planning workshop on 16 November to enable the draft budget to be produced.

RECOMMENDATIONS

- 3 Members are asked to:
 - (i) note the planning assumptions being used to set the revenue budget for 2019/20;
 - (ii) note the budget planning workshop for members on 16 November; and
 - (iii) note the deadline for approval of the 2019/20 revenue budget by the FRA.

BACKGROUND

- 4 The Authority is required to set a balanced revenue budget in December each year. Normally, there will be a period of public consultation prior to budget setting. The initial planning assessment for 2019/20 indicated a net budget requirement of £35.4m compared to £34.1m for 2018/19. This represents a year on year increase of £1.3m in net expenditure. During 2018/19 the FRA is utilising over £0.6m from reserves to fund running costs, a strategy which is not sustainable in future years. Consequently, the potential increase in contributions from constituent local councils for 2019/20 will be £1.9m.

- 5 The Planning Working Group met on five occasions between January and April 2018 to consider various options for the management of the increase. The group recommended to the Authority that the budget should be constructed on the basis of the current level of service provision. The FRA approved this recommendation on 18 June 2018. The FRA is currently undertaking a public consultation on the 2019/20 revenue budget which includes the proposed increase in contributions from constituent local councils. The consultation closes on 2 November 2018 and a members' budget planning workshop will be held on 16 November 2018. The workshop will consider the responses to the consultation and the budget proposals for 2019/20. The planning assumptions and risks are outlined in Appendix 1. The 2019/20 draft revenue budget will be considered for approval by the FRA at its meeting on 17 December 2018.

INFORMATION

- 6 The budget planning assumptions and risks are outlined in Appendix 1. Inflationary pressures are most significant in relation to employee costs. The current planning assessment assumes a pay award of 2%, although it is noted that the negotiations within the National Joint Council (NJC) over pay awards for 2018 onwards have not been concluded. A further risk to employee costs relates to the employer pension contributions for firefighters which are expected to increase following a recent revaluation by the Government Actuary's Department. As precise details of the increase are yet to be announced, the current budget forecast does not, as yet, include an increase in employer contributions. The potential impact arising from any changes will be assessed and discussed at the workshop.
- 7 An inflationary increase has not been applied to non-pay budgets for a number of years. Work is ongoing to identify specific risks within each budget heading and to consider options for managing the non-pay pressures.
- 8 Capital financing costs include the costs of borrowing and revenue charges for using capital assets. A rise in Bank of England base rates has been factored into the budget. A review of the capital programme is being undertaken to identify options for further reductions.

IMPLICATIONS

Well-being Objectives	This report links to the NWFRA's long-term well-being objectives. It reports on the financial viability of the Authority.
Budget	The current estimate is that net expenditure will increase in 2019/20 by £1.3m.
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 2019/20 budget include pay awards exceeding 2%, increases in the employer contribution rates for firefighter pensions and increases in the Bank of England interest rates in excess of expectations.

Appendix 1

Summary of planning assumptions and risks

Heading	Percentage of net expenditure	Planning assumptions used in budget setting	Risks
Employee related	71%	<ul style="list-style-type: none"> • No significant changes to staffing structures are anticipated • Original planning assumptions included a cost of living increase of 1%. The current working assumption is that pay inflation will be 2% • No increases in national insurance contributions are anticipated • Initial budget planning assumed that pension contribution rates for 2019/20 would remain unchanged 	<ul style="list-style-type: none"> • The Government Actuary's Department has provided the outcome from its 2016 valuation of the Firefighters' Pension Schemes. This has highlighted the potential for a significant increase in employer contributions arising from changes in the discounts rates used. The current planning assumption is that this will be funded for 2019/20 although this remains a key risk • Negotiations between the National Joint Council (NJC) and the Fire Brigades Union are not yet finalised
Non Pay	20%	<ul style="list-style-type: none"> • An inflationary increase has not been applied and budget managers are required to find savings to mitigate general cost pressures. 	<ul style="list-style-type: none"> • Cost pressures are being experienced in a number of areas including ICT, Fleet and Estates and efficiency reviews are ongoing across the Service to identify opportunities to manage non-pay expenditure
Capital Financing	10%	<ul style="list-style-type: none"> • The original planning assessment included a capital programme for 2018/19 of £4.9m. Options for reducing the capital programme are being developed • An increase in interest rates has been factored into the budget planning 	<ul style="list-style-type: none"> • The potential increase in interest rates is unknown and may exceed planning assumptions.
Income	-1%	<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