

6. Financial Prospects and Future Planning

Purpose of Report

1. To inform the Committee of future financial prospects.
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Recommendation

The Treasurer recommends that the current revenue expenditure and resource projections be noted.

Background

2. In February 2010 the Fire and Rescue Authority (FRA) agreed a Medium Term Financial Plan (MTFP) for 2010-11 to 2013-14. It was, however, approved prior to the change in government and the October 2010 Comprehensive Spending Review.
3. The Medium Term Financial Plan was based around a set of assumptions which are no longer appropriate, and as a consequence these have been reviewed.
4. In his Comprehensive Spending Review statement to the House of Commons, the Chancellor stated that he was protecting Fire and Rescue Services from the level of cuts to be made by Local Government. Since then there has been an announcement of an average grant reduction for FRAs of 25% over 4 years, and an indication that it would be back-loaded, but actual grant data for individual FRAs is not expected until early December.
5. There is significant concern amongst Combined Fire Authorities that the Government may cap grant cuts in order to equalise the expenditure effect on individual authorities. If this is done at the average level of expenditure impact (i.e. 13%) this would mean a grant cut of 38% for H & W FRA, but lower than 25% for Metropolitan FRAs.
6. The Chief Fire Officer and Director of Finance, along with most of the local MPs, met the Fire Minister on 11 November to present the case for fairness in funding to non-Metropolitan areas and efficiencies already achieved.
7. CFAs have recently formed a group to further the case of fairness in Grant distribution; the Chair and DCFO have represented the Authority on this group.
8. Some clarity has been given about the council tax freeze, which is in accordance with the MTFP assumptions.

Expenditure Requirement

9. This has been revised to take account of the public finance announcements made by the Chancellor in June and October 2010 and differs from the original MTFP as follows:
 - Pay freeze for 2010/11 and 2011/12, 1% increases thereafter (previously 2% throughout).

- Note that an additional 1% in pay would cost £0.224m in a full year.
- Deferral of changes to Firefighters' Pension Scheme rates to April 2012 (previously April 2011).
- Assumption that increased NI rates (£0.178m) are offset by banding changes as announced in the June Budget – full details still awaited.

10. In addition there are potential cost pressures in respect of:
- Additional RDS training
 - Property maintenance
11. Appendix 1 gives details of the new expenditure requirement projections. It should be noted that at this stage they are raw projections and do not take account of the cumulative impact of closing annual budget gaps.
12. The table below compares these revised projections to similar figures assumed in the MTFP:

	2011/12	2012/13	2013/14
	£m	£m	£m
MTFP	32.153	33.367	33.805
Revised Projection	31.731	33.009	33.456
Saving	(0.422)	(0.358)	(0.349)

13. In spite of the additional cost pressures the core budget requirement is less than that in the MTFP.

Available Resources

14. As this report was written when the provisional grant settlement had not been made, the position will be updated verbally at the meeting if information is available.
15. The working assumption is that the 25% cut in grant over 4 years equates to 25% less grant cash in 2014/15 than in 2010/11. It remains unclear as to whether there will be an allowance for inflation in future grant payments, but this has not been assumed.
16. The Chancellor announced that cuts to Fire and Rescue Service grants would be back-loaded into the latter 2 years of the 4 year settlement. Beyond that no indication of phasing has been given, but based on latest indications from officers professional associations a profile of 6%, 3%, 5%, and 11% has been used.
17. The council tax freeze arrangements mean that setting a 0% increase in council tax in 2011/12 will provide a grant equal to 2.5% of the precept yield.
18. No assumption has been made regarding the increase of Council Tax above the current level, but this is something that Members may wish to consider (see paragraph 25 below).

19. Appendix 2 gives details of the potential resources, which are summarised below:

	2010/11 Actual £m	2011/12 Forecast £m	2012/13 Forecast £m	2013/14 Forecast £m	2014/15 Forecast £m
Formula Grant	10.668	10.028	9.708	9.174	8.001
Council Tax Freeze Grant		0.516	0.516	0.516	0.516
	10.668	10.544	10.224	9.690	8.517
Council Tax	20.643	20.643	20.643	20.643	20.643
Collection Fund	0.083	0.000	0.000	0.000	0.000
	20.726	20.643	20.643	20.643	20.643
	31.394	31.187	30.867	30.333	29.160
Grant	34%	34%	33%	32%	29%
Council Tax	66%	66%	67%	68%	71%

Budget Gap

20. Combination of the expenditure requirement and projected future resources gives a budget gap analysed as follows:

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Raw Budget Requirement	31.731	33.009	33.456	34.102
Forecast Resources	31.187	30.867	30.333	29.160
Budget Gap	0.544	2.142	3.123	4.942

21. The cumulative savings to be identified are:

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
2011/12 on-going savings	0.544	0.544	0.544	0.544
additional and on going 2012/13 savings		1.598	1.598	1.598
additional and on going 2013/14 savings			0.981	0.981
additional and on going 2014/15 savings				1.819
	0.544	2.142	3.123	4.942

22. In the worst case scenario (see paragraph 5 above) with grant cuts being made pro-rata to expenditure rather than grant the 2011/12 gap might be £0.320 greater and the cumulative position at 2014/15 £1.4m larger.

Closing the Budget Gap

23. The Principal management team has been working over the past few months to challenge individual budget lines and areas of spend, identifying options for change and reduction in expenditure. Members, Officers and staff shared initial ideas

through the “Meeting the Challenge” workshops earlier in the year and these have informed both the 2011/12 draft IRMP proposals and other emerging plans to address the financial challenges ahead. £140,000 saving has already been identified through a reduction in the number of Principal Officer posts and the 2011/2012 IRMP being considered today proposes a range of reviews to ensure the Service continues to reduce risk in its communities whilst making the best use of its available resources.

24. However, given a level of grant cut of at least 25% the necessary level of savings cannot be achieved from the back office alone and changes to service levels cannot be ruled out.
25. Beyond 2010/11 the FRA will have control of local council tax policy and may choose to use this method to ease the budget gap. For information an annual 2.5% increase in council tax has the following impact :

	2012/13 Forecast £m	2013/14 Forecast £m	2014/15 Forecast £m
2012/13	0.516	0.516	0.516
2013/14		0.529	0.529
2014/15			0.542
	0.516	1.045	1.587

26. This equates to under £1.84 per Band D tax-payer per year.
27. This would have the impact of reducing the gap to

2012/13 Forecast £m	2013/14 Forecast £m	2014/15 Forecast £m
1.626	2.078	3.355

Equality and Diversity Impact

28. The immediate impact on recruitment activities means that progress against equality and diversity targets for the recruitment of wholetime female and BME firefighters will not be achievable. However, retained recruitment will continue based on need.
29. This coincides with the non-reporting of such targets at government level, and subsequently employment levels will continue to be monitored, to ensure that although limited positive progress can be made in this period, what recruitment does take place happens in an environment of good equalities practice.

Future Progress

31. It is anticipated that the proposed level of future grants will be known prior to the Committee meeting and this will enable a preliminary paper to be taken to the FRA meeting in December, with a more detailed consideration for the January meeting of this Committee.

Financial Considerations

Consideration	Yes/No	Reference in Report i.e paragraph no.
There are financial issues that require consideration	Yes	Whole report

Legal Considerations

Consideration	Yes/No	Reference in Report i.e paragraph no.
There are legal issues e.g. contractual and procurement, reputational issues that require consideration	No	

Additional Considerations

32. The table below sets out any additional issues arising from the proposals contained in this report and identifies the relevant paragraphs in the report where such issues are addressed.

Consideration	Yes/No	Reference in Report i.e paragraph no.
Resources (e.g. Assets, ICT, Human Resources, Training & Development, Sustainability).	Y	Whole report
Strategic Policy Links (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	Y	Whole report
Risk Management / Health & Safety (e.g. risk management and control measures, risk register score).	N	
Consultation with Representative Bodies	N	

Supporting Information

Appendix 1: Expenditure Requirement Forecast

Appendix 2: Resources Projection

Background Papers

None

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