Hereford & Worcester Fire Authority
15 February 2017

Report of the Treasurer and the Chief Fire Officer

Budget and Precept 2017/18 and Medium Term Financial Plan

Purpose of report

1. To determine the Revenue and Capital Budgets and the Council Tax Requirement for 2017/18.
2. To approve the Prudential Indicators and Minimum Revenue Provision (MRP) Statement for 2017/18'
3. To identify potential future resources, their consequential impact on future year budgets and the future Council Tax Requirement. (the Medium Term Financial Plan)

Recommendations

It is recommended that:

i) the Capital Budget and Programme (Appendix 1) be approved;

ii) the Revenue Budget (Appendix 4) be approved;

iii) the Authority calculates that in relation to the year 2017/18:

- ***a) the aggregate expenditure it will incur will be £32,965,000.00;***
- ***b) the aggregate income it will receive will be £10,187,950.00;***
- ***c) the net amount transferred from financial reserves will be £903,278.00;***
- ***d) the net collection fund surplus is £237,704.00;***
- ***e) the net amount of its Council Tax Requirement will be £21,636,068.00;***
- ***f) the basic amount of Council Tax will be £79.53 (Band D);***
- ***g) the precept demands on the individual Billing Authorities are:***
  - ***Bromsgrove £2,867,585.35***
  - ***Herefordshire £5,376,085.62***
  - ***Malvern Hills £2,386,370.81***
  - ***Redditch £2,028,739.51***
  - ***Worcester £2,476,643.72***
  - ***Wychavon £3,873,448.98***
  - ***Wyre Forest £2,627,194.01***

iv) the Medium Term Financial Plan (Appendix 5) and Reserves strategy be approved; and

v) the Statement of Prudential Indicators and Minimum Revenue Provision Policy (Appendix 8) be approved.

Introduction and Background

4. In October 2016 the Authority approved a revised Medium Term Financial Plan (MTFP), which identified a cumulative budget gap of £1.657m by 2019/20.

5. This budget gap was based on a set of assumptions and was updated to the Policy and Resources Committee on 25 January 2017, with the then available information, by which time the gap had reduced to £1.459m.

6. Final information is now available on resources:

   a. Council Tax-bases – from Billing Authorities;
   b. Band D Council Tax level – recommendation from the Policy and Resources Committee;
   c. Council Tax increase referendum threshold – from government;
   d. Collection Fund surpluses - from Billing Authorities;
   e. Estimated Retained Business Rates yield - from Billing Authorities; and
   f. Grant – *at the time of publication of this report the grant settlement had not been formally confirmed. It would be exceptional if the final position is changed, however, if it is, then an update will be provided at the Authority meeting.*

7. The Policy and Resources Committee considered draft budget proposals on 25 January 2017 based on the provisional information then available. The Committee recommended to the Fire Authority that:

   a. the 2017/18 precept increase is set at £1.53 per year at Band D;
   b. future years' planning should assume an annual precept increase of 1.96%.; and
   c. The Budget Reduction Reserve is used to smooth the budget gap in transition to planned efficiency savings.

Review of Available Resources

8. Resources can be split between formula grant, other grants, Council Tax precept and Retained Business Rates.

Formula Grant

9. Members will recall that as part of the 2016/17 Settlement the government gave indicative grant figures for the whole of the CSR period to 2019/20. In order to have these future allocations confirmed (and not subject to further reduction) an Authority was required to submit and publish an Efficiency Plan.

10. It is pleasing to note that the Home Office accepted the Efficiency Plan submitted by this Authority, without any questions or required amendment, and therefore future grant can be relied upon.

11. It should be noted that Government has committed, however, that by the end of this CSR period Local Authorities will retain all Business Rates, but have central grant allocation.

12. Details of this are still not known and there will be some significant distributional effects which remain un-addressed. For planning purposes therefore it is assumed that 90% of the resources available from grant in 2019/20 will be available in 2020/21.

13. Part of the current grant calculation is linked to the government's projection of business rate yield. As a result of the Business Rate Revaluation from April 2017 the expected yield has reduced and consequently this element of grant has increased by £0.252m. However, there would be an expected equivalent reduction in actual Business Rate yield. (See below).

Other Grants

14. Members will be aware that the Authority receives grant in respect of national New Dimensions functions and the Firelink radio scheme.

15. Although grant for the former has not yet been formally confirmed the MTFP therefore assumes the continuation of 2016/17 levels.

16. The Authority is aware that the Firelink grant will be eliminated when the replacement and promised significantly cheaper national radio scheme goes live.

Precept Assumptions

17. The level of income from precept is determined by the Band D tax and the total tax-base.

18. The actual level of tax-base has again risen significantly, by 1.8%, in 2017/18, this is above the forecast of 1.4%, as a result of :
    a. Improvement in the estimate of actual collection from tax-payers who had previously not paid any Council Tax.
    b. Changes to Council Tax support schemes increasing the amount of Council Tax payable.
    c. A review of (and reduction in) the granting of single person discounts.
    d. New properties.

19. This increase provides the Authority with slightly more income (£0.089m) than was previously forecast, as well as a one off £0.238m surplus on the Collection Funds.

20. As the Treasurers of the Billing and Precepting Authorities have worked together and shared information, future growth in tax-base (set out in Appendix 6) is based on the Billing Authority estimates, averaging 1.3%.

21. This figure is below the 1.96% implicit tax-base increased assumed by government in its own projections of changes in spending power.

22. Since 2004/05 the annual net Collection Fund out-turn has ranged from a net deficit of £0.002m to a net surplus of £0.286m, and there have been significant

annual variations, both surplus and deficit, from individual Authorities. It would be imprudent to fund core expenditure from this source and the Collection Fund is therefore assumed to be neutral in future years.

23. Although the Authority is free to increase the precept by any level it feels is appropriate, any increase above the threshold set by government (2% for 2017/18), requires the Authority to hold a referendum on the increase. The Authority has previously concluded that a referendum is not preferable given the percentage increase necessary merely to fund the cost of the referendum.

24. Policy and Resources Committee continued to support the Medium Term Financial Plan to increase annual precept by 1.96% and has recommended that the Authority increase the Band D tax by £1.53 in 2017/18 and that the planning assumption continues.

25. This figure would be below the level (2.0%) that would require the Authority to conduct a referendum on the level of increase in 2017/18.

Retained Business Rates

26. Within the grant settlement the government made an initial assumption about the level of business rates to be retained by each local authority and then makes assumptions about how this will change each year.

27. This influences the amount of “Business Rate top-up” included in the grant payable, and as referred to above this has increased as the estimate of business rate yield has fallen.

28. Each year however, the Billing Authorities provide an estimate (the NNDR1) of the amount they believe is collectable. This also includes estimates of any grant payable by government to compensate for some nationally determined rate reliefs. This represents the actual resources available.

29. The NNDR1 forecast share for 2017/18 is £0.202m less than in 2016/17 and reflects the base-line and grant changes.

30. The main change however is that the significant deficit on the Collection Fund in 2016/17 £0.274m has become a small surplus £0.025m in 2017/18.

31. The revised projection presented to Policy and Resources Committee identified the reduction in the core rates income but there had been no indications from the Billing Authorities to forecast the Collection Fund variation. The net impact is shown in the table below.

	2016/17 Actual £m	**2017/18 MTFP £m**	**2017/18 P&R £m**	**2017/18 Actual £m**
Core	2.378	2.426	2.175	2.173
Collection Fund	(0.274)	(0.279)	(0.251)	0.025
Grants	0.134	0.137	0.123	0.168
	2.238	**2.283**	**2.047**	**2.366**

32. For planning purposes it is assumed that the core yield (and grants) will rise at least as much as the government's inflation target (i.e. 2% per year), but that Collection Fund should be assumed to be neutral.

Expenditure Requirement

33. The expenditure requirement has continued to be refined and the key assumptions around pay, inflation and interest rates are outlined in the paragraphs below.

34. Expenditure changes are in line with the MTFP with the following exceptions that were approved by Policy & Resources on 25 January 2017.

35. The revised MTFP identified base savings from 2016 pay awards and general inflation. The previous estimates for these figures are now replaced with the actual ones providing a further £0.087m saving.

36. The Local Government Pension Scheme (LGPS) has been subject to the regular tri-annual valuation. Whilst there is only a marginal increase (£0.010m) in the forward funding rate, there has been a higher (£0.080m) increase in the back-funding costs. It is possible that some of this cost can be recouped by using cash balances to fund in advance and reduce interest charges.

37. This distinction is unique to the LGPS as back-funding costs of the FFPS are met from a consolidated, government set, employer's contribution rate and direct government grant.

38. There are two technical adjustments in relation to the costs of PPL
    a. The MTFP was set based on the original business case (FBC) which at that time included Herefordshire Council. When that Authority withdrew the Fire Authority re-confirmed its commitment to PPL on the grounds that the overall FBC saving was un-changed. However there was a change in the profile of these savings from the early part of the 10-year FBC (i.e. the current MTFP period) to the latter part. The MTFP was not at that time adjusted for the changed profile.
    b. Additionally the assumptions about Fire Authority share of PPL costs did not take account of the change in the employers NI rates as a consequence of the abolition of "contracting out" following the introduction of the single state pension. These costs should have been included in the budget and would have been incurred anyway had employees not transferred to PPL.

39. Capital Financing has been reviewed in light of:
    a. The revised approved Vehicle Strategy
    b. The likely timescales for spending on major building projects
    c. The funding of the Wyre Forest Hub
    d. Potential provision for priorities arising from the building condition survey

    to minimise long term financing costs.

40. As a result it has been possible to reduce the capital financing budget for 2017/18 and 2018/19, but the spend profile means that there is a "catch up" by 2019/20.

41. Although the Chancellor has again made clear the government's policy on public sector pay increases, i.e. a maximum of 1% per year, it is not entirely clear how this will translate to the fire sector as pay awards are negotiated independently of central government.

42. However, Members will recall that, to ensure that the Authority's Efficiency Plan was based on government projections, the amended MTFP reduced provision to 1% pa

43. The relevant assumptions are summarised below in tabular form for ease of reference:

	2017/18	**2018/19**	**2019/20**	**2020/21**
Pay Awards	1.0%	1.0%	1.0%	1.0%
General Inflation	2.0%	2.5%	2.5%	2.5%
Long Term Borrowing Rates	3.5%	3.5%	3.5%	3.5%

44. In accordance with previous practice, and to provide a continuous record of year on year budget changes, Appendix 3 tracks the changes from the approved 2016/17 budget to that proposed for 2017/18. Appendix 4 allocates this proposed budget to the relevant approved budget heads.

Capital Programme

45. The Capital Programme, using prudent financing assumptions and based on the agreed Asset Management Plan and Fleet Strategy, and with the usual annual provision of £0.600m for minor buildings and IT schemes etc. is included as Appendix 1. The revenue consequences of the schemes, including financing costs, are included in the revenue budget projections in Appendices 3, 4, and 6, and the Statement of Prudential Indicators and Minimum Revenue Provision Policy at Appendix 8.

46. Although budget provision has been given for specific schemes within the proposed Major Buildings block, as individual contracts are still subject to tender etc., individual allocations are not shown in order that the information does not compromise the Authority's negotiating position.

47. The Programme now includes provision for expenditure on schemes funded from Transformational Grant.

Excess Staff Costs

48. Following the implementation of the agreed CRMP staff reductions it was expected that there would be a surplus of uniformed staff in post above that approved for the whole-time establishment.

49. As part of the MTFP the Authority approved the use of the budget reduction reserve to try to meet the Authority's desire not to instigate compulsory redundancies of uniformed staff. Costs are therefore matched with an equal amount transferred from the reserve.

50. Since the original plan was drawn up there have been a number of changes to the profile of staff costs

    a. The estimate of net costs of seconded staff are reduced
    b. There are additional officers seconded
    c. Some seconded staff have permanently transferred to other Services
    d. Staff taking voluntary redundancy, where redundancy costs are less than the remaining employment costs.
    e. Staff have left for other reasons that were not predictable

    which significantly reduce the overall demand on this reserve.

Revenue Reserves Strategy

51. The table below shows the projected position in relation to General Balances based on the approved MTFP. The balance is targeted (and remains) to be around 5% of expected budget, although it is closer to 6% until the end of 2018/19.

	2017/18	**2018/19**	**2019/20**	**2020/21**
	£m	**£m**	**£m**	**£m**
General Balances at 1 April	1.838	1.838	1.538	1.538
Approved Use		(0.300)		
General Balances at 31 Mar	1.838	1.538	1.538	1.538

52. No addition to balances in 2017/18 is shown; as the Policy and Resources Committee has yet to recommend how to deploy the managed in-year underspending (£0.928m at Quarter 2). Given that the level of general balances is adequate it may choose to boost the Budget Reduction Reserve, or use for other purposes.

53. Although there is no guidance as to the exact level of balances that it is reasonable for any Authority to hold, a level of around £1.5m or 5% is considered to be prudent. The Authority has to be mindful of the opportunity to quickly replenish balances if they are called upon and this becomes much harder in a financial regime where central government controls grant, business rate levels and council tax levels.

54. It is still worth quoting Rob Whiteman (Chief Executive of CIPFA) in an open letter to Melanie Dawes (the then new Permanent Secretary to DCLG) in 2014: *"For the avoidance of doubt, CIPFA's guidance to chief finance officers is clear that at a time of increasing financial risk, a council making cuts should also increase reserves to reflect the greater volatility of its budget."*

55. Whilst this level of balances is desirable, there is an opportunity cost of holding balances. They could be used to finance one off expenditure or temporarily reduce the Council Tax precept, which itself will have an impact on the long term financial position. The risk of using up balances is, however, that any unforeseen expenditure could not be met.

56. Earmarked reserves are held for purposes where either the timing or value of expenditure is un-certain. Appendix 7 details these reserves held by the Authority and their expected use.

57. It can be seen *(Appendix 7: Line 21, Column 6)* that of the reserves ear-marked to smooth budget reductions £3.180m currently remains uncommitted.

58. Members will recall that approval was given to use £0.060m of reserves to support safety initiatives in respect of Houses in Multiple Occupation (HIMO). The bulk of expenditure in 2016/17 will be funded from in year savings and has not required a call on reserves.

2017/18 Budget and Precept and Future Years

59. Based on the assumptions set out in this paper the relative financial position can be summarised as below:

	2017/18 Budget £m	**2018/19 Forecast £m**	**2019/20 Forecast £m**	**2020/21 Estimate £m**
Gross Expenditure Forecast	31.687	31.925	33.069	33.576
MTFP Approved Use of Reserves	(0.619)	(0.686)		
Projected Available Resources	(31.821)	(31.490)	(31.868)	(32.023)
Net Deficit/(Surplus)	(0.753)	(0.251)	1.201	1.553
			TOTAL	**1.750**

60. As Members will be aware a number of projects are underway which will deliver significant savings by the end of this period, e.g. Wyre Forest Hub, Hindlip Re-location (reduced cost of smaller building, disposal of existing HQ building and potential for back office integration) which anticipate annual savings of around £0.550m - £0.600m.

61. The timing of these savings, particular the practical realisation of building disposal is uncertain and so these savings are not yet included within the MTFP.

62. Officers will continue to work on identifying savings to close the remaining budget gap, but it is worth stating that if council-tax and business rates income moves in line with government projections, the Authority would have £0.340m more resource in 2019/20 rising to £0.550m in 2020/21.

63. When considering the position in January, Policy & Resources Committee approved the recommendation to use the un-committed earmarked reserves to smooth transition and balance the budget whilst the identified efficiencies are

realised. With the expectation that required usage would reduce when these savings were brought into the budget.

64. At the time the Committee considered this matter the business rate yield projections were less than they turned out to be and the £2.6m approved has now reduced to a requirement of £1.750m leaving £1.430m still available (see Appendix 7).

65. In order to balance this requirement over the period it is necessary to make a contribution to the reserve in 2017/18 and 2018/19.

66. Based on the above recommended strategies the formal precept calculation for 2017/18 is set out in Appendix 6. The Band D precept will rise by £1.53 (or less than 3 pence per week) to £79.53.

Budget Risks

67. Setting a net budget at £31.687m still presents risks, for example:

- Pay Award – an annual provision of 1% has been made - a variance of +/- 0.5% adds or saves £0.100m.
- General Inflation – each additional 1% costs/saves £0.100m.
- Future Council Tax Policy is also unknown; although a 1.96% increase is assumed in the MTFP a reduction by 1.0% would cumulatively reduce resources by around £0.212m per year.

Investment of Surplus Funds

68. In accordance with the Authority's Treasury Management Strategy, surplus funds are invested by Worcestershire County Council alongside their own funds.

69. Given the continuing uncertainty in financial markets, the Treasurer advises that investment should continue to be focussed on security. As a consequence surplus funds continue to generate low returns which are factored into the budget.

70. Since October 2008 the Authority has adopted a policy of avoiding new long term borrowing, where working capital balances permit. The Authority will only extend long term borrowing when cash-flow requirements dictate that it is necessary, and only to finance long term assets

Prudential Code Indicators

71. Since 1 April 2004, the Local Authority capital finance system has been one of self-regulation based on a Prudential Code drawn up by the Chartered Institute of Public Finance and Accountancy (CIPFA).

72. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Local Authorities are affordable, prudent and sustainable or, in exceptional cases, to demonstrate that there is a

danger of not ensuring this, so that the Local Authority concerned can take timely remedial action.

73. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code also has the objective of being consistent with and supporting, local strategic planning, local asset management planning and proper option appraisal.

74. To demonstrate that Authorities have fulfilled these objectives, the Prudential Code sets out indicators that must be used and the factors that must be taken into account. The Code does not include suggested indicative limits or ratios. These are for a Local Authority to set itself, subject only to any controls under Section 4 of the Local Government Act 2003 (Government Reserve Powers).

75. The prudential indicators required by the Code are designed to support and record local decision making. They are not designed to be comparative performance indicators and use of them in this way would likely to be misleading and counter-productive. In particular, Local Authorities had widely differing debt positions at the start of the prudential system and the differences are likely to increase over time as a result of the exercise of local choices. The system is specifically designed to support such local decision making in a manner that is publicly accountable.

76. In setting or revising the prudential indicators, the Authority is required to have regard to the following matters:

- affordability, e.g. implications for Council Tax;
- prudence and sustainability, e.g. implications for external borrowing;
- value for money, e.g. options appraisal;
- stewardship of assets, e.g. asset management planning;
- service objectives, e.g. strategic planning for the Authority; and
- practicality, e.g. achievability of the forward plan.

77. The Treasurer has prepared the prudential indicators having considered the matters above, and they are set out in detail in Appendix 8.

Minimum Revenue Provision (MRP)

78. Minimum Revenue Provision is the amount set aside in the revenue budget to meet the future repayment of borrowing incurred to pay for capital investment.

79. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require that an Authority sets its own prudent level of MRP, by adopting a policy in advance of the year to which it relates.

80. For ease of reference both the policy is set out in Appendix 8.

Budget Calculations: Personal Assurance Statement by the Treasurer

81. Section 25 of the Local Government Act 2003 requires the Treasurer to report to the Authority when it is setting the budget and precept (Council Tax). The Authority is required to take this report into account when making its budget and precept (Council Tax) decision. The report of the Treasurer must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.

82. The Treasurer states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:

- the Fire Authority budget policy;
- the need to protect the Fire Authority's financial standing and to manage risk;
- the current year's financial performance;
- the financial policies of the Government;
- the Fire Authority's Medium Term Financial Plan and Planning framework;
- capital programme obligations;
- Treasury Management best practice;
- the strengths of the Fire Authority's financial control procedures including audit consideration;
- the extent of the Authority's balances and reserves; and
- the prevailing economic climate and future prospects.

Equality and Diversity Impact

83. The immediate impact on recruitment activities means that progress against equality and diversity targets for the recruitment of wholetime female and Black Minority Ethnic (BME) firefighters will not be achievable. However, retained recruitment will continue to be based on need and in this area the Service will continue to do all it can to address our diversity targets.

84. It is no longer a requirement to report such targets at government level, but employment levels continue to be monitored to ensure that although limited positive progress can be made in this period, any recruitment that does take place happens in an environment of good equalities practice.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	Yes – whole report
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	Yes – Resourcing for the Future
Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	No
Consultation (identify any public or other consultation that has been carried out on this matter)	Yes – consultation with Business Rate-Payers as required by legislation
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	No

Supporting Information

Appendix 1	Capital Programme
Appendix 2	Personnel Budget
Appendix 3	Revenue Budget Changes 2016/17 to 2017/18
Appendix 4	Revenue Budget Allocation 2017/18
Appendix 5	Council Tax Requirement Calculation 2017/18
Appendix 6	Medium Term Financial Forecasts 2017/18 to 2020/21
Appendix 7	Revenue Reserves
Appendix 8	Statement of Prudential Code Indicators and Minimum Revenue Provision Policy.

Background Papers

Policy and Resources Committee 25 January 2017: Budget 2017/18 and MTFP
Fire Authority 11 October 2016: Revision to the MTFP
Fire Authority 17 February 2016: Budget & Precept 2016/17 and MTFP

Contact Officer
Martin Reohorn, Treasurer
(01905 368205)
Email: mreohorn@hwfire.org.uk