

## Report of the Treasurer

### 6. Budget 2016/17 and Medium Term Financial Plan (MTFP)

#### Purpose of Report

1. To review the current position in relation to budgets for 2016/17 and beyond, and to make recommendations to the Fire Authority.
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#### Recommendations

*It is recommended that the Committee:*

- *recommend that the Fire Authority increases council tax by £1.50 per year (1.96%) for 2016/17;*
- *recommend that the Fire Authority uses £0.960m of the earmarked reserve to smooth the impact of the accelerated grant reduction;*
- *recommend that the Fire Authority rephase £0.150m of the previously approved use of general balances from 2016/17 to 2017/18;*
- *agrees the budget planning assumptions set out in Appendix 1 to be recommended to the Fire Authority; and*
- *notes the remaining budget gaps set out in Appendix 2.*

#### Background

2. In February 2015 the FRA agreed a MTFP for 2015/16 to 2019/20 which identified annual cumulative savings of £3.346m by 2019/20.
3. This budget gap was based upon a number of estimates, and particularly in respect of the resource side was after a General Election and another Comprehensive spending Review (CSR).
4. Provisional information has now been received to finalise some of the figures in the resourcing side of the budget equation, specifically:
  - i. government grant; and
  - ii. Council tax-base growth.
5. Final Information on the following is expected towards mid/end of January (and may be available for a verbal update to the Committee on 27 January 2016):
  - i. final council tax-base - from billing authorities;
  - ii. council tax collection fund surpluses/deficits
  - iii. estimate of business rate income - from billing authorities; and

- iv. Confirmation of grants - from the Department of Communities and Local Government (DCLG).
6. The assumptions for future years (2017/18 onwards) are slightly less critical at this point in terms of setting the budget for next year, but it should be noted that the timescales for making major changes to expenditure levels within the Fire and Rescue Service are significant, and therefore decisions taken now will have an impact for future budget setting processes.

## Review of Available Resources

7. The review of future resources can be split between grant, council tax precept and retained business rates.

## Formula Grant

8. In determining grant allocations, Government now calculates a base-line figure including an estimate of our retained business rates. It then pays the difference between the two figures as grant.
9. In the absence of any other information the current MTFP assumptions for 2016/17 onwards were based on a continuation of the grant reduction trend seen over the 2013/14 to 2015/16 period.
10. The headline figure for reduction in the baseline had previously been used by government to provide a comparator to the pre-2013/14 local government financial arrangements, but is by definition a smaller figure than the actual cut in grant.

11. The MTFP assumptions are as below:

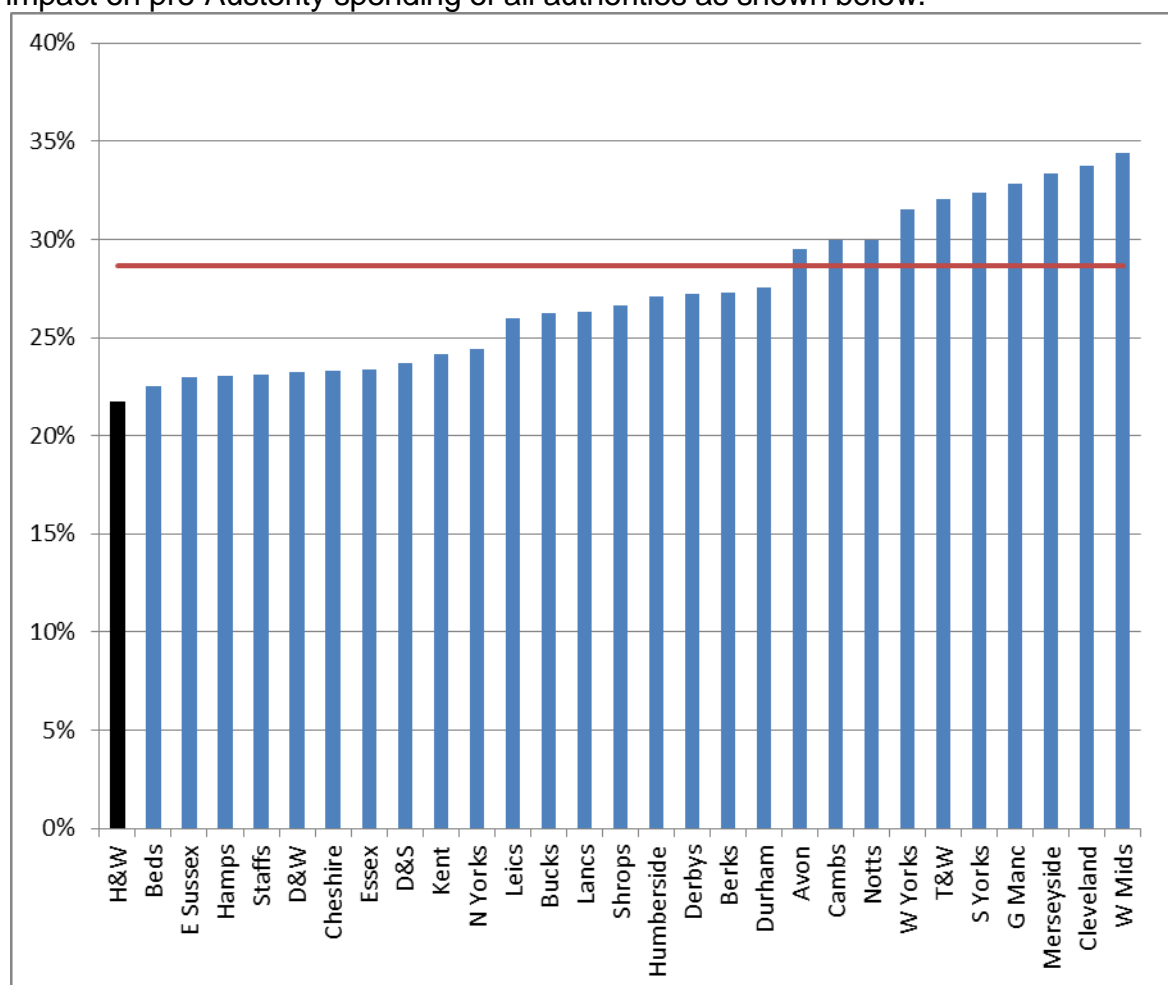
	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>OVERALL</b>
reduction in baseline	-8.5%	-8.5%	-8.5%	-8.5%	<b>-29.9%</b>
a grant reduction of	-11.1%	-11.5%	-12.0%	-12.6%	<b>-39.4%</b>

12. In late December the provisional figures for 2016/17 to 2019/20 were announced, with an average reduction in baseline of 21.3% and grant of 29.4%.
13. The figures for H&W are much worse than this average being 28.4% baseline and 38.9% grant.
14. On the face of it this is marginally better than the MTFP assumption (worth an additional £0.046m in grant in 2019/20) but the position is worsened as the grant cuts are front loaded as below;

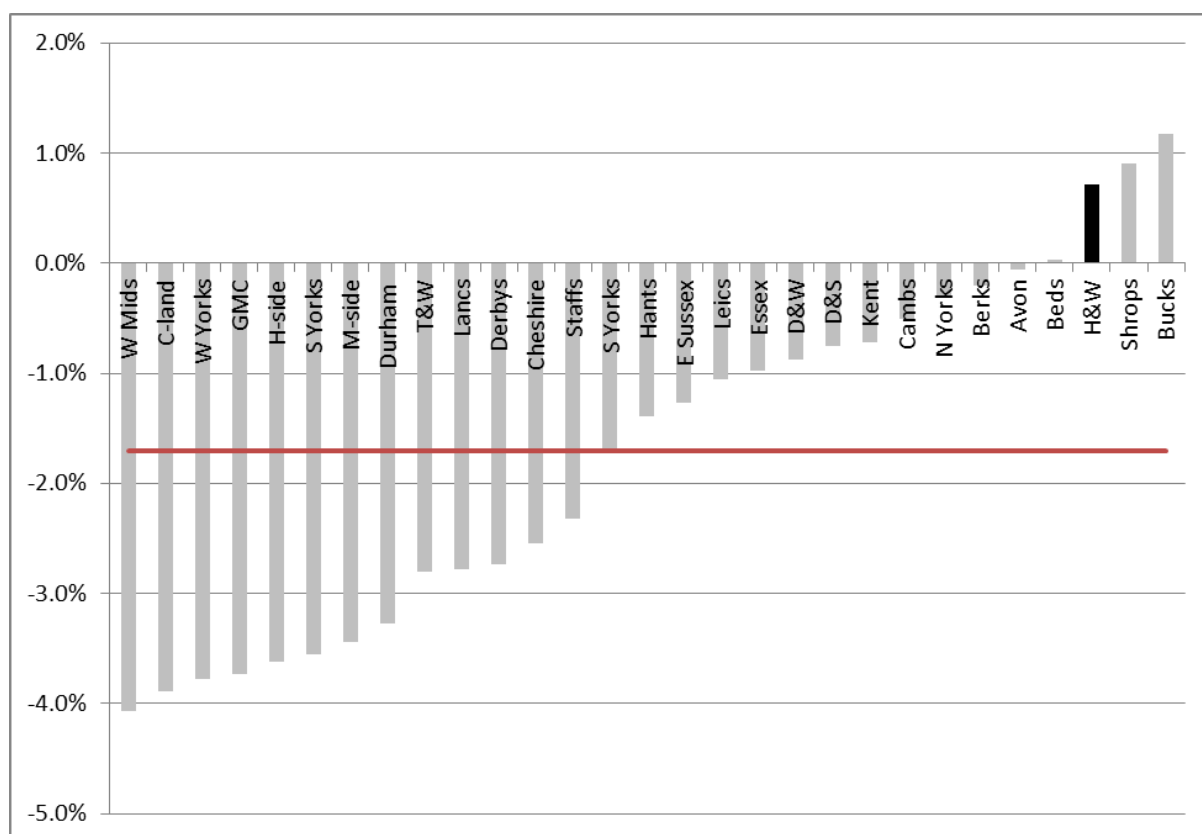
	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>OVERALL</b>
MTFP	-11.1%	-11.5%	-12.0%	-12.6%	<b>-39.4%</b>
Settlement	-12.7%	-17.7%	-10.0%	-5.5%	<b>-38.9%</b>

which means that there are additional savings to be made in the earlier years, which total £1.096m.

15. Members will recall that as part of the Out-turn decisions for 2014/15 a sum of £1.185m was prudently earmarked for potential CSR differences. It is suggested that this is used to close this one off gap, leaving the 2019/20 medium term position unchanged.
16. It is not known exactly why this authority has fared so badly in relation to the average and only two authorities (Berks and Bucks) have bigger reductions. It is clear that Authorities that have a greater reliance on grant have had lower percentage reductions, as government has focussed on the grant cut as a percentage of overall budget.
17. This has been the subject of lobbying by such authorities and to some extent can be said to be unfair as it maintains the relationship between excessive grant allocations and low precept that existed pre-Austerity.
18. However, when making adjustments for the change in local government finance arrangements between 2010/11 and 2019/20 this Authority still has the lowest impact on pre-Austerity spending of all authorities as shown below.



19. Even when using the government's own measure of reduction in "spending power" over the period 2015/16 to 2019/20 this Authority does reasonably well, with an increase of 0.7% compared to an average reduction of 1.7%.



20. Whilst this measure assumes that the tax-base grows by the average of the last 2 years (1.8%) rather than the previous 8 years (0.8%) it does show a significant trend.

### Precept

21. In approving the current MTFP in February 2015 the Fire Authority recommended assumptions of annual Band D increases of 2% and annual tax-base increases of 0.5%.
22. The tax-base assumption was subject to debate as although the average change in the prior two years (since the change in local government financing) was 1.8% the previous 8 year average was only 0.7%.
23. Although final tax-base figures are not yet available from billing authorities, earlier engagement has indicated an estimated 2016/17 increase of 1.84%, and future estimates averaging around 1.3%.
24. It is likely that, as a consequence of the 2016/17 increase, there will be another significant one-off collection fund surplus, but no details are yet available.
25. It is now considered that there is sufficient confidence in these figures to increase the future tax-base assumptions accordingly.

26. In respect of the Band D increase, the referendum limit for 2016/17 has been set at 2.0%. In order to ensure that there is no technical (or apparent) breach of this threshold an assumption of 1.96% is made for 2016/17 and continued into future years.

27. The net impact of this is to increase resources as below:

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Revised Band D	-0.008	-0.016	-0.024	-0.032
16/17 Tax-base	0.273	0.280	0.287	0.294
Future Tax-base	-	0.182	0.354	0.534
	0.265	0.446	0.617	0.796

### Retained Business Rates

28. The Fire Authority now retains 1% of the Business Rates collected in the two counties, and there are two sources of estimated yield information:

- i. Government's baseline assessment – available now.
- ii. Estimates provided by the Billing Authorities (known as NNDR1), which will be provided at the end of January.

29. The Billing Authorities' estimation is complicated by three further factors:

- i. The necessity to make provision for backdated Appeals going back 5 years before the introduction of the retention scheme.
- ii. The aftermath of the backdating of GP surgeries appeals to the 2005 Valuation List.
- iii. The late introduction by government of rate relief which reduced the amount of rate collectable, but which resulted in additional special grant being paid to Authorities. Some of which have ended and some extended into 2016/17.

30. For 2016/17 the baseline figure has risen by only 0.8%, but the MTFP assumes that the yield will rise by 1.9% (in-line with previous years increase in base-line) estimate. If this is reflected in the NNDR1 estimates for 2016/17 it could result in a reduction in resource of around £0.030m.

31. Although there is now a much closer liaison with the Billing Authorities (and the County Council) on these matters, it remains a very complex subject and it is not yet clear what the NNDR1 estimates for 2016/17 will be.

32. The net impact of these changes is shown in Appendix 2 (*Line 9*) and is a net improvement of £0.664m by 2019/20.

### Expenditure Requirement

33. The MTFP (see *Appendix 2: Line 1*) identified a budget gap of £0.300m in 2016/17 rising to £3.346m in 2019/20 and was based on resource estimates as outlined above, and assumptions about expenditure.

34. There are now a number of changes in respect of these expenditure forecasts, which are outlined below.
35. Ending of the contracted out rates of Employers National Insurance. Although it was included in the current MTFP the first year is 2016/17 not 2017/18 as previously included by error. This has a £0.380m impact in 2016/17 only as it was included in future years already.
36. Fire Control equipment maintenance costs increasing by £0.090m per year as a result of the extension of the contract and increasing age of equipment. This is offset to an extent by £0.080m per year of unrelated additional income.
37. The “Apprentice levy” on employers introduced in the Chancellors Autumn Statement an additional annual cost of £0.070m per year from 2017/18.
38. The budget for 2015/16 contained a provision for general inflation. Once again it has not been necessary to allocate this in total as the general level of inflation remains low and budget holders continue to restrain budgets. It is therefore possible to remove this un-allocated amount from the base budget saving £0.125m per year.
39. As this is the third consecutive year that this has been possible it is now considered prudent to reduce the future inflation provision, although this reduction has been restricted to two years only.
40. 2015 Pay Awards: Provision was made for a 2% award to all staff, but the reality was that Support staff required a 2 year award in 2014 and uniformed (grey book) staff of 1% from July. As a consequence there is a saving to the base budget of £0.275m per year.
41. Although the Chancellor has once again made the government’s policy on public sector pay increases for the CSR period very clear at a maximum of 1%, it is not entirely clear how this will translate to the fire sector as pay awards are negotiated independently of central government.
42. It has previously been considered prudent to provide a higher figure of 2% in the budget to reflect that after two years of pay freeze and four years at 1% there may be pressure for a significantly higher award. This caution is recommended to continue.
43. Capital Financing has been reviewed in light of experience over the last few years and a downward adjustment is possible.
44. The net impact of these changes is shown in Appendix (*Line 20*) and is a net improvement of £0.670m by 2019/20.

45. The net impact of these changes is summarised below:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Budget Gap in MTFP	0.300	1.627	2.493	3.346
Change to Resources	(0.099)	0.056	(0.178)	(0.664)
Change to Net Expenditure	(0.310)	(0.720)	(0.720)	(0.670)
	<b>(0.109)</b>	<b>0.963</b>	<b>1.595</b>	<b>2.012</b>

46. If the CSR reserve (see paragraph 15) is used as recommended and the already approved use of the general balances is re-phased (see paragraph 56) the interim position is improved to:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Residual Gap	(0.109)	0.963	1.595	2.012
Re-phasing of Balances	0.150	(0.150)		
CSR Reserve		(0.574)	(0.386)	
	<b>0.041</b>	<b>0.239</b>	<b>1.209</b>	<b>2.012</b>

### Other Issues

47. For information, if the 2016 Pay Award is again at 1% rather than the 2% provided in the budget, the 2017/18 (and future) gap would reduce by a further £0.230m.
48. The projection does not include any savings from the transformational bid funded projects nor the revised Project Arrow review.
49. In approving the CRMP the Fire Authority provided funding for a two year provision of DCP for the second pumps at Hereford and Worcester stations. Whilst this arrangement is subject to review it would be prudent to include these costs in the MTFP, where they can of course be removed if the Authority decides that the arrangement is not cost effective.
50. The final budget gaps will therefore be:

<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>0.041</b>	<b>0.393</b>	<b>1.363</b>	<b>2.166</b>

### Excess Staff

51. In anticipation of the need to reduce staff numbers significantly to meet the known budget pressures, and to try to meet the Authority's desire not to instigate redundancies of uniformed staff, Members will be aware that a budget reduction reserve was been created over the last few years to meet these potential costs.

52. In addition Senior Officers have identified and pursued options for staff to be temporarily seconded to neighbouring services to reduce cost pressures. With the active co-operation of the Authority's staff this will have delivered £1.8m net saving for the period 2014/15 – 2016/17.
53. The MTFP included provision to use this reserve to cover this additional cost over the period to 2019/20 with an anticipated £1.023m being left in the reserve by the end of that period.
54. With additional staff now being seconded and some staff transferring permanently as well as other unplanned leavers this residual is now expected to be £1.839m (of which £0.293m relates to 2015/16).
55. This position may be improved significantly if there is significant take up of the approved Voluntary Redundancy scheme.

### General Balances

56. The current MTFP assumes the use of £0.300m of balances in 2016/17 and it is proposed to re-phase this as set out below. The budget requirement is based on the limiting factor of available resources.

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
General Balances at 1 April	1.838	1.688	1.538	1.538
Approved Use	(0.300)			
Proposed Re-phasing	0.150	(0.150)		
General Balances at 31 Mar	1.688	1.538	1.538	1.538
Indicative Budget Requirement	31.784	31.243	31.274	31.631
% of Budget Requirement	5.3%	4.9%	4.9%	4.9%

57. Relative to other Fire Authorities this level of balance is not high, and it should be noted that Fire Authorities now bear a risk in relation to council tax benefit and business rate yield, and so is more directly connected to local economic conditions.
58. Members will be aware that the last 2015/16 budget monitoring report identified potential savings of £0.792m but has yet to make a decision as to how this should be used.
59. Whilst this level of balances remains prudent there is an opportunity cost of holding reserves. They could be used to finance one off expenditure or to temporarily reduce the council tax precept. The risk, of course, is that if reserves are reduced there is less capacity to meet unforeseen or unexpected expenditure pressures, and a temporary reduction in council tax cannot be readily recovered.



## Future Progress

60. Officers will continue to refine the budget figures and will receive final tax-base, collection fund figures and estimated business rate income.
61. The Fire Authority will meet on 17 February 2016 to agree a budget and precept for 2016/17.

## Corporate Considerations

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

## Supporting Information

Appendix 1 : Summary of Budget Assumptions

Appendix 2: Updated MTFP

## Background Papers

FRA 18 February 2015: Budget and Precept 2015/16 and MTFP

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