

Report of the Treasurer

5. Budget 2014/15 and Review of the Medium Term Financial Plan (MTFP)

Purpose of Report

1. To review the current position in relation to budgets for 2014/15 and beyond, and to make recommendations to the Fire and Rescue Authority (FRA).
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Recommendations

The Chief Fire Officer and Treasurer recommend that the Policy and Resources (P&R) Committee:

- ***recommends to the FRA to increase council tax by £1.43 per year (1.94%) for 2014/15 (or a lower amount should the referendum threshold be set lower);***
- ***agrees the budget assumptions to be recommended to the FRA;***
- ***approves the recommendation to be made to the FRA of the consequential budget and precept requirements for 2014/15;***
- ***recommends to the FRA the precept policy for the Medium Term Financial Plan (MTFP) period; and***
- ***notes the consequential budget gaps arising.***

Background

2. In February 2013 the FRA agreed a MTFP for 2013/14 to 2016/17, which was updated in July, prior to the start of consultation on the Community Risk Management Plan (CRMP) to take account of new information available from government.
3. The November 2013 meeting of this Committee and the December 2013 meeting of the FRA considered further information on funding changes that were being discussed but, in the absence of any other firm information, were not able to draw any conclusions.
4. Provisional information has now been received to finalise some of the figures in the resourcing side of the budget equation, specifically:
 - share of government grant totals; and
 - government estimates of business rate yield.

5. Final Information on the following is expected towards mid-January (and may be available for a verbal update to the Committee on 28 January 2013):
 - final council tax-base - from billing authorities;
 - estimate of business rate income - from billing authorities; and
 - confirmation of grants - from the Department of Communities and Local Government (DCLG).
6. The MTFP is always based on a set of assumptions about the future. Given the continued period of significant financial constraint, and in order to provide more openness to our communities, continued emphasis is being placed on the reasoning behind the assumptions now being made.
7. The assumptions for future years (2015/16 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.
8. The year 2016/17 is beyond the current (extended) Comprehensive Spending Review (CSR) period and after a general election, although it is expected that the general direction of funding will be unaffected.

Review of Available Resources

9. The review of future resources can be split between “base-line” (i.e. grant and business rates retention) and precept.

Base-line and Formula Grant

10. As Members will be aware, the government implemented significant changes in local government finance from April 2013.
11. Government now calculates a base-line figure (which for the present is the prior year figure less grant reduction) and an estimate of our business rate yield (1% of the rates collected in Herefordshire & Worcestershire). The difference is paid as various elements of support grant.
12. In addition, in July the government gave more clarity about the continuation of council tax-freeze grants, at least for this extended CSR period.
13. In late December the provisional figures were announced which updated the estimates that were made based on the exemplifications issued in July and were used as the under-pinning financial information for the CRMP.
14. It is unfortunate that in spite of meetings with the Fire Minister (including with local MPs) the provisional settlement is fundamentally unchanged.

15. Indicative base-line figures are 0.3% lower in 2014/15 and 0.5% lower in 2015/16. Although this is within the reasonable limits of accurate forecasting, it still represents £0.040m less resource in 2014/15.
16. It is possible that some, or all, of this gap may be closed if the business rate estimates from district councils are significantly higher than the government estimate. It should be noted that if there is additional resource it would have been available even if the base-line had not been further reduced.

Precept Assumptions

17. In accordance with the recommendations of the FRA the MTFP had assumed precept increases of 2% per annum. In light of the government's announcements in July 2013 regarding future council tax levels, clarity of continuity of 2013/14 council tax freeze grant and the announcement of new freeze grants, this was amended to 0% for 2014/15 and 2015/16, whilst remaining at 2% for 2016/17.
18. This reduction had a significant effect on future resources and the potential need for savings from the CRMP.
19. In respect of the tax-base the FRA has historically been cautious about forecasting significant annual increases, and particularly so in light of the impact of fundamental changes to council tax support (council tax benefit until March 2013).
20. Full tax-base figures are not yet available from all billing authorities, but those received to date show an increase in yield, although this may be partially offset by data from districts that are planning changes to their local council tax support schemes.
21. The FRA can choose to increase council tax in 2014/15 to meet expenditure pressures in 2014/15, or to secure future years funding, depending on its view of the likelihood of being able to do so in the future.
22. A freeze in council tax will entitle the FRA to a grant roughly equal to a 1% increase, and any increase above the threshold limit requires the FRA to hold a referendum.
23. The indicative threshold for 2014/15 and 2015/16 is 2%, but the Minister has stated that this is not yet set and may be lower for 2015/16 or even for 2014/15.

Expenditure Requirement

24. The revised MTFP identified budget gaps of £1.375m, £3.226m and £4.725m for 2014/15, 2015/16 and 2016/17 (see Appendix 1: Line 3) and, as planned, officers have focussed on closing this gap during 2013/14.

25. Details of measures taken are outlined in the Appendix and, as can be seen (Appendix 1: Line 29), have significantly closed the identified gaps.
26. Members are reminded that these savings are on top of the £2.3m identified in the previous three years and which have not directly impacted on services to our communities.
27. The expenditure requirement has continued to be refined and the key assumptions around pay, inflation and interest rates are outlined in the paragraphs below.
28. An average 2.5% figure for general inflation has been used.
29. In addition it has been thought prudent to include an additional inflation provision for two key areas of expenditure that are projected to individually increase well above the average Consumer Price Index (CPI)/Retail Price Index (RPI) level. These areas are utilities (gas and electricity) and diesel fuel.
30. Although the Chancellor has 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.
31. It has been considered prudent to provide a higher figure of 2% to reflect that after two years of pay freeze and two years at 1% there may be pressure for a significantly higher award.
32. The relevant assumptions are summarised below in tabular form for ease of reference:

	2014/15	2015/16	2016/17
General Inflation	2.50%	2.50%	2.50%
Utilities - Gas	10.00%	5.00%	5.00%
Utilities - Electricity	7.50%	5.00%	5.00%
Diesel Fuel	7.50%	5.00%	5.00%
Pay Awards	2.00%	3.00%	2.00%
Long Term Interest	4.00%	4.00%	4.00%

Budget Gap

33. For ease of understanding, the various changes identified in detail in Appendix 1 are summarised below in terms of the impact on the CRMP budget gap.
34. Members will also recall that it was expected that the £4.7m gap at the end of the CSR period (by 2016/17) would be met broadly by a further £2.0m of savings not affecting front-line response, £2.0m from the fire cover review, with a further

£0.7m still to be identified, potentially from improved grant settlements or reduced pay award costs.

35. At this point the outcomes of the consultation on the CRMP have not been considered by the FRA and are not yet included.
36. The forecast budget requirement and projected available resources based on the assumptions outlined in the above paragraphs give underlying budget gaps as indicated below:

	2014/15 £m	2015/16 £m	2016/17 £m
CRMP Gap	1.375	3.226	4.725
Reduced Grant Settlement	0.040	0.056	0.056
Increased Future Tax-bases	0.000	(0.046)	(0.094)
	1.415	3.236	4.687
Reduced expenditure from re-calculated estimates	(0.131)	(0.245)	(0.195)
Savings Measures	(0.944)	(1.588)	(1.859)
Increased income from 2014/15 Tax-bases etc.	(0.190)	(0.150)	(0.150)
	0.150	1.253	2.483

37. If this is related to the expected split of reductions:

	Not Front -line £m	Front- line £m	Other £m	TOTAL £m
CRMP Gap	2.000	2.000	0.725	4.725
Reduced Grant Settlement			0.056	0.056
Increased Future Tax-base			(0.094)	(0.094)
	2.000	2.000	0.687	4.687
Reduced expenditure from re-calculated estimates			(0.195)	(0.195)
Savings Measures	(1.859)			(1.859)
2014/15 Tax-bases etc.		(0.150)		(0.150)
	0.141	1.850	0.492	2.483

38. This still requires the identification of cost reductions (including from the Fire cover review) as below:

	2014/15 £m	2015/16 £m	2016/17 £m
On-going reductions needed 14/15	0.150	0.150	0.150
Further on-going reductions needed 15/16		1.103	1.103
Further on-going reductions needed 16/17			1.230

39. If the FRA decided to increase precept in 2014/15, whilst it is currently anticipated to be able to do so, the current indicative referendum limit (see paragraph 21) suggests an increase of 1.94%, an increase of less than £0.03 (3 pence) per week at Band D.
40. To put this into context, should the referendum limit be lower at say 1.5% an increase of 1.44% would increase Band D by £0.02 (2 pence) per week.
41. From a financial and operational view the precept increase is necessary to protect front line services (fire stations, fire engines and firefighter posts), and consistent with the level of increase proposed by Worcestershire County Council. Indicative information suggests that three-quarters of fire authorities may be increasing precept this year, including some that are already significantly better resourced.
42. The above paragraph recognises the tangible rationale for the precept increase but it is recognised that Members have to take into account other factors when making their decisions.
43. If the precept was increased by 1.94%, the budget gap in 2014/15 would be closed and the savings required by the end of the CSR period, as analysed in paragraph 37, would be as per the table below. In examining the table below it should be recognised that the raising of the precept for 2014/15 has a positive cumulative effect for future years and therefore is important to protect frontline services in years beyond 2014/15.

	Not Front -line £m	Front- line £m	Other £m	TOTAL £m
Paragraph 37 gap	0.141	1.850	0.492	2.483
2014/15 Precept increase		(0.175)		(0.175)
	0.141	1.675	0.492	2.308

44. If the additional precept increase were limited to 1.44% the increase in resource is limited to £0.080m.

General Reserves

45. Although there is a planned and controlled under-spending for 2013/14, it will be recommended that this is added to the existing budget reduction reserve specifically to fund one-off or short term costs associated with implementing future organisational changes.

46. The table below shows the projected position in the general reserve in relation to the revenue budget requirement over the new MTFP period. The budget requirement is based on the limiting factor of available resources.

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
General Reserves balance at 1 April	1.485	1.485	1.485	1.485
Budget Requirement	32.549	32.005	31.266	30.785
% of Budget Requirement	4.56%	4.64%	4.75%	4.82%

47. These figures are marginally higher than in the previous MTFP due to the impact of the reduced resource projections slightly increasing the percentage of reserves held.
48. Relative to other FRAs this level of balance is not high, and it should be noted that the FRA now bears a risk in relation to council tax benefit and business rate take, and so is more directly connected to local economic conditions.
49. 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

50. Officers will continue to refine the budget figures and will receive final tax-base, collection fund figures, and estimated business rate income.
51. There is a budget seminar for all Members on 30 January 2014, at which the implications of the final resource figures will be known.
52. The FRA will meet on 19 February 2014 to agree a budget and precept for 2014/15.

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 – whole report
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)	No
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	n/a

Supporting Information

Appendix 1: MTFP Review

Background Papers

FRA 13 February 2013: Budget and Precept 2013/14 and MTFP
P&R Committee 19 November 2013: Financial Prospects 2014/15
FRA 11 December 2013: Financial Prospects 2014/15

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