

## **9. Financial Prospects 2013-14**

### **Purpose of report**

1. To provide the Policy and Resources Committee with an update on developments on the funding position for 2013/14 and beyond.
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### **Recommendation**

***The Chief Fire Officer and Treasurer recommend that the report be noted.***

### **Introduction and Background**

2. In setting the current Medium Term Financial Plan (MTFP), assumptions were made about future funding sources. These were based on a best estimate of the limited information available at the time. Since then further information has become available, but this is still not definitive. Details are attached in Appendix 1.
3. At this stage there is no more certainty over future funding for this Authority, than there was in February when the MTFP was approved by the Fire and Rescue Authority.
4. This certainty (at least for 2013/14) is unlikely to emerge until early December 2013 when Government grants to Fire and Rescue Authority's (FRA's) are announced by Government officials and may be subject to change.
5. There are 5 key areas of funding change, which are being reviewed:
  - Base-lining of current expenditure and grant (for setting the future business rate retention arrangements).
  - The size of the fire "grant" pot.
  - Business Rate Retention scheme.
  - Localisation of Council Tax Support arrangements.
  - Council Tax policy and the implications of the 2012/13 freeze grant.

### **Base-lining Expenditure and Grant**

6. On 17 July the Department for Communities and Local Government (DCLG) issued a 251 page consultation document on the factors to be included in the baseline assessment, the revised grant control totals and the proposed arrangements for working the business rate retention scheme. As part of this

there are 83 separate consultation questions requiring a response by 24 September. Due to the size of this document a weblink to the DCLG site is provided as a background paper.

7. In establishing the base level for the future finance arrangements DCLG had indicated that there would be no fundamental change to the existing grant distribution formula except for 3 potential issues:
  - Potential inclusion of a fire sparsity indicator.
  - Re-setting of the Relative Needs element back to the level used in the 2008/09 to 2010/11 period.
  - Updating of the population data from 2008 estimates to revised estimates based on the 2011 census data.
8. The impact of the first 2 items is included in this consultation document and the effect for Hereford & Worcester Fire and Rescue Authority is laid out in the table below. It should be noted however, that the damping arrangements are indicative only, and the final arrangements (subject to Ministerial judgement) will not be known until the publication of the draft settlement in early December.

	£m before damping	£m after damping
2012/13 Formula Grant		10.6
2011/12 Freeze Grant		0.5
		<b>11.1</b>
Fire Sparsity	0.5	0.3
Relative Needs	-0.5	-0.3
	<b>0.0</b>	<b>11.1</b>

9. The Fire Sparsity element, which has support from rural Fire and Rescue Authorities, has the effect of moving more resources from the metropolitan areas to the shires. The Relative Needs Adjustment would impact on all types of local authority and only 10 of the 30 stand-alone Fire and Rescue Authorities would lose out if this were implemented, with only Buckinghamshire and Dorset Fire and Rescue Authorities being proportionately worse hit than Hereford & Worcester Fire and Rescue Authority.
10. At this point it is not possible to confirm which, if any, of these adjustments will be made and for planning purposes no change is planned to the current assumptions.
11. DCLG have indicated that the population updates will be included in the base-lining, but will not be announced until the settlement is made in December and there will be no pre-announcement of the damping arrangements.
12. However, the consultation document does provide comparative data on the 2008 population estimates and 2011 census data. This shows that whilst the overall population is around 0.8% higher than the 2008 forecast, there are some

significant movements, e.g. London +3.7%, Avon -4.6%. This will have an impact on the distribution of the fixed fire grant pot.

13. Hereford & Worcester Fire and Rescue Authority data shows that the population of the 2 counties remains at 1.43% of the total population, which should result in no grant change from this element.
14. Movement from a difference of 1.1%, which is close to the average change and all other things being equal, should not impact on the relative allocation.

### **The Future Grant “Pot”**

15. Members will recall that the Medium Term Financial Plan (MTFP) is based on the indicative fire grant control totals (then available) adjusted for an estimate of the impact of the changes to the totals as a result of Treasury assumptions on future public sector pay.
16. The actual impact of this change was announced by the Minister, and the grant reductions were slightly higher than had been forecast. The consultation document also makes reference to the Fire grant control totals, and these differ again.
17. The different figures are shown in the table below:

	<b>2013/14</b>	<b>2014/15</b>
Control Totals - Feb 2012	-8.50%	-5.00%
MTFP Assumption	-9.06%	-5.83%
Ministerial Announcement	-10.50%	-6.00%
Consultation Document	-9.10%	-5.42%

18. The “worst case” scenario moving from the MTFP figure to the Ministerial figures would reduce Hereford & Worcester Fire and Rescue Authority grant by £0.150m.

### **Business Rate Retention**

19. Proposals are that standalone Fire and Rescue Authorities will retain 1% of the business rate income for their areas. The difference between this figure and the amount previously paid as formula grant will be paid as a new Business Rate Top Up Grant.
20. Based on the MTFP assumption around grant cuts and information currently available in respect of Business Rates, it is estimated that £3m of funding will be from retained business rates and around £7m from top up grant.
21. This top up grant will be reduced to ensure that the pre-determined central grant cuts are implemented after localisation. It should be noted that after 2013/14 this grant is not directly linked to a formula and therefore distribution can be amended for any purpose.

## **Localisation of Council Tax Support**

22. The MTFP included an estimate (£0.300m) of the potential cost of the move from a nationally managed and funded Benefit system to a locally based system of discounts with only 90% of the previous funding available.
23. Indicative information has now been provided which suggest that the original estimate; based on locally adopted schemes mirroring the existing national one; was still reasonable.
24. Over the same period, in conjunction with the County Council, there has been extensive consultation with the Worcestershire Billing Authorities about the design of their local schemes and the potential reduction in this cost. This would suggest that perhaps £0.040m to £0.050m might be shaved off this cost in 2013/14.
25. In respect of Herefordshire Billing Authority, as yet there has been no consultation on their plans.

## **Council Tax Policy**

26. Although there have been no further announcements on council tax levels, any increase above a threshold level will be subject to compulsory referendum. Members are reminded that the cost of running a referendum is estimated as the equivalent of a 1.2% increase in Band D in its own right.
27. Although this trigger point has not been set for 2013/14; and past figures are not an absolute guide to the future; the 2012/13 figure was 4%. The MTFP assumes future precept increases of 3.5%.
28. Members will recall the debate regarding the decision to accept a second year of council tax freeze in exchange for a one-off Freeze Grant in 2012/13.
29. A number of local authorities (including 9 (30%) of standalone Fire and Rescue Authorities) decided to increase council tax rather than accepting the freeze grant. Although Ministers have made statements that these authorities will not be in a better position than those who complied with government policy, there is no evidence yet of how this is to be implemented. It is possible it will be a factor in the final grant damping decisions referred to in paragraph 8 above.

## **Conclusion**

30. Although there has been a significant amount of new information, it is indicative only and insufficiently detailed to be more accurate than the current MTFP assumptions.

## Financial Considerations

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

## 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

31. 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.
<b>Resources</b> (e.g. Assets, ICT, Human Resources, Training & Development, Sustainability).	No	
<b>Strategic Policy Links</b> (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	No	
<b>Risk Management / Health &amp; Safety</b> (e.g. risk management and control measures, risk register score).	No	
<b>Consultation with Representative Bodies</b>	No	

## Supporting Information

Appendix 1 – Budget Projections

### Background papers

DCLG : Business Rates Retention Technical Consultation

<http://www.local.communities.gov.uk/finance/brr/sumcon/index.htm>

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