Hereford & Worcester Fire Authority
14 February 2018

Report of the Treasurer and the Chief Fire Officer

Budget and Precept 2018/19 and Medium Term Financial Plan

Purpose of report

1. To determine the Revenue and Capital Budgets and the Council Tax Requirement for 2018/19.
2. To approve the Prudential Indicators and Minimum Revenue Provision (MRP) Statement for 2018/19.
3. To approve the level of Fees & Charges for chargeable services for 2018/19
4. To identify potential future resources, their consequential impact on future year budgets and the future Council Tax Requirement. (the Medium Term Financial Plan)
5. To approve Reserves and Investment Strategies

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 Medium Term Financial Plan (Appendix 5) be approved;

iv) the Authority calculates that in relation to the year 2018/19 and set out in Appendix 6:

a) the aggregate expenditure it will incur will be £32,610,000.00;
b) the aggregate income it will receive will be £9,735,854.00;
c) the net amount transferred from financial reserves will be £298,438.00;
d) the net collection fund surplus is £167,475.00;
e) the net amount of its Council Tax Requirement will be £22,575,808.00;
f) the basic amount of Council Tax will be £80.90 (Band D);
g) the precept demands on the individual Billing Authorities are:

- ***Bromsgrove £2,991,897.11***
- ***Herefordshire £5,583,743.01***
- ***Malvern Hills £2,494,832.90***
- ***Redditch £2,134,166.59***
- ***Worcester £2,582,184.16***
- ***Wychavon £4,048,774.02***
- ***Wyre Forest £2,740,210.21***

v) the Reserves Strategy (paragraphs 59-65 and Appendix 7) be approved;

vi) the Investment Strategy (paragraphs 72-77) be approved;

vii) the fees and charges for 2018/19 (Appendix 8) be approved; and

viii) the Statement of Prudential Indicators and Minimum Revenue Provision Policy (Appendix 9) be approved.

Introduction and Background

6. In December 2017 the Authority reviewed an interim revised Medium Term Financial Plan (MTFP), which identified a cumulative budget gap (after the approved use of reserves) of £0.947m by 2021/22.

7. This budget gap was based on a set of assumptions which were updated, with the then available information, and reviewed by Policy and Resources Committee on 31 January 2018. This resulted in a balanced budget to 2021/22 and an annual gap of £0.6-£0.7m thereafter.

8. 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.*

9. The Policy and Resources Committee considered draft budget proposals on 31 January 2018 based on the provisional information then available. The Committee recommended to the Fire Authority that:

    a. the 2018/19 Band D precept increase is set at £2.37 (2.98%);
    b. future years' planning should assume an precept increase of 2.98% in 2019/20 and an annual increase of 1.96% thereafter;
    c. provision be made for future pay awards at 2%; and
    d. the Reserves Strategy is reconfirmed including their appropriate use to smooth the budget gap in transition to planned efficiency savings.

Review of Available Resources

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

Formula Grant

11. 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.

12. Members will be aware 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.

13. At the time of approval the Home Office gave Authorities discretion on how to report progress against efficiencies and this Authority, along with many others, chose to do this through its normal budget monitoring cycle. It should be noted, however, that the draft National Framework proposes specific and separate monitoring and reporting of the Efficiency Plan.

14. It is also worth noting that the Home Office guidance made clear that the use of Reserves was considered to be efficiency, even though they can only be used as a one-off.

15. Whilst it is now clear that the previous Governments commitment to 100% Business Rate Retention is now not possible within the probable legislative time-table, the present Government is now consulting on 75% Rates Retention from 2020/21, using existing legislation.

16. At the same time, Government is considering public sector funding levels:
    a. the appropriate total public spending
    b. the relative share of local government against Health, Defence etc.
    c. the relative needs within local government e.g. Fire against Police/Social Care etc.
    d. the distribution of the fire share between individual authorities.

17. Whilst government have still not determined whether Fire will continue to be part of the rates retention scheme, the relative levels of Business Rate yield and RSG in some Fire Authorities mean that there would inevitably have to be some form of resource redistribution.

18. In the absence of any certainty on these matters for planning purposes it is assumed that Revenue Support Grant (RSG) ceases in total from 2020/21.

19. As the previous planning for grant reduction were very prudent and RSG for this authority is very low, the impact of this assumption (together with those around Business Rates detailed below) is one of timing rather than long term impact.

20. It should be noted that other Authorities have made different assumptions about future grant, which in their particular circumstances may be more cautious. If these assumptions were adopted there could be £0.500m - £0.600m in available resources in 2020/21 and 2021/22. The Treasurer does not believe these would be prudent planning assumptions for this Authority.

Other Grants

21. The Authority receives grant in respect of national New Dimensions functions and the Firelink radio scheme.

22. Although grant for the former has not yet been formally confirmed the MTFP therefore assumes the continuation of 2017/18 levels.

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

24. The replacement radio project is now at least 2 years behind schedule, and government has not yet confirmed that the special grant funding for Firelink will be extended to cover this period. Although the Home Office has recently informally suggested that it would expect to continue payment this has not been confirmed.

25. It is therefore assumed that the grant will cease with effect from the original planned cut-over date.

Precept Assumptions

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

27. Although the 2018/19 tax-base has risen by 1.32%, this is marginally below the 1.4% forecast and well below the average of 1.9% over the last four years.

28. More significantly the Billing Authorities are planning for future council tax-base increases to average 0.9% compared to the 1.3% in the previous MTFP forecasts. This has the impact of reducing the 2021/22 yield projection by around £0.250m.

29. This reduction may be for a number of reasons. including:
    a. The initial caution of the impact of local Council Tax Benefit schemes (collection from tax-payers who had previously not paid any Council Tax) has been reversed as far as is appropriate;
    b. The review of (and reduction in) the granting of single person discounts, has exhausted that potential;
    c. There is some evidence of “land-banking” amongst developers

30. There is also a one off £0.167m surplus on the Collection Funds.

31. 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.

32. Although the Authority is free to increase the precept by any level it feels is appropriate, any increase above the threshold set by government 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, without delivering additional resources to fund services.

33. Based on the previous referendum limit of 2% the Authority had approved a planning assumption of 1.96% annual precept increases.

34. Government has, however, announced that (subject to formal confirmation) the limit for 2018/19 will be 2.99%, and is planned as 2.99% for 2019/20 also.

35. In considering the revised MTFP, Policy and Resources Committee recognised the need to secure resources for future need and therefore recommends that the Authority should approve an increase in Band D tax by £2.37 (2.98%).

36. This figure is below the level (2.99%) that would require the Authority to conduct a referendum on the level of increase in 2018/19.

37. The Committee also confirmed that the Medium Term Financial Plan should assume a further increase of 2.98% in 2019/20 and 1.96% per year thereafter.

38. It was recognised that if the resource projections were not as severe as the cautious forecasts, then there would be scope for reducing these assumptions.

Retained Business Rates

39. Each year the Billing Authorities provide an estimate (the NNDR1) of the amount of Business Rate they believe is collectable. This also includes estimates of any Section 31 grant payable by government to compensate for some nationally determined rate reliefs.

40. Together with the Section 31 grant payable directly by the Ministry of Housing and Local Government (MHLG) – formerly DCLG – this is an estimate of the total resources available.

41. The potential position regarding 75% Business Rate Retention has been outlined earlier and the planning assumption is that from 2020/21 the Fire Authority retains 1.5% of the locally collected Business Rates *(based on the principal that it keeps 1% under the current 50% retention regime).*

42. At the time of publication NNDR1 information had not been received from all Billing Authorities, so the position is based on a best estimate. If materially different then these figure will be updated at the Authority meeting.

43. 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

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

45. Policy & Resources on 31 January 2018 gave consideration to the level of the pay award provision, given that the awards for all staff are subject to national negotiation.

46. Based on the fact that the Fire-fighters (grey book) were offered at least 2% from July 2017 (which is yet to be resolved) and support staff have been offered a 2% increase for two years, it is considered prudent to provide for an annual 2% increase across the MTFP.

47. As the 2017/18 budget only made provision for a 1% award for Fire-fighters, it has been necessary to make future provision for the impact of this being at least 2%. This is partly offset by base savings in the 2017/18 inflation provision.

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

	2018/19	2019/20	2020/21	2021/22
Pay Awards	2.0%	2.0%	2.0%	2.0%
General Inflation	2.5%	2.5%	2.5%	2.5%
Long Term Borrowing Rates	3.5%	3.5%	3.5%	3.5%

49. During 2017/18 a review of property maintenance needs identified a need to spend an additional £0.872m over the next 5 years. By utilising the under spending on excess staff in 2017/18 a reserve has been created to fund this expenditure over time

50. Finally, work is now sufficiently advance on the more of Headquarters to the Hindlip site for the expected savings to be brought forward to 2018/19.

51. 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 2017/18 budget to that proposed for 18/19. Appendix 4 allocates this proposed budget to the relevant approved budget heads.

Fees and Charges

52. The Authority sets a scale of fees for chargeable services and these are now reviewed annually.

53. It has been determined that the fee payable should be a rounded sum so it may not be necessary to apply an increase each year.

54. The proposed charges for 2018/19 are set out in Appendix 8.

Capital Programme

55. 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 9.

56. 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.

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

Reserves Strategy

58. The Authority holds reserves for a number of reasons and these can be summarised as:

    a. Deferred Expenditure Reserves: monies set aside to fund long life equipment (e.g. Cutting gear, breathing apparatus, fire control etc.) which negates the need for capital financing costs in the medium term
    b. Budget Reduction Reserve: monies to be used to smooth the transition of significant efficiency measures
    c. Other Earmarked Reserves: held to cover the costs of known events where timing is uncertain
    d. General Reserve: unallocated and held to meet the "unknown unknowns"

59. Deferred Expenditure reserves will be spent as necessary to meet the costs of the agreed items as they are procured.

60. In approving the strategy in relation to reserves in February 2017 the Authority has confirmed that the Budget Reduction Reserve is used to close the budget gaps in the MTFP period, until major efficiencies come fully on-line. .

61. Although there is no guidance as to the exact level of balances that an Authority should hold, a level of around £1.5m or 4.5% of 2018/19 Net Budget 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.

62. It is still worth quoting Rob Whiteman (Chief Executive of CIPFA) in an open letter to Melanie Dawes (the then 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."*

63. 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.

64. The planned use of balances in the MTFP period is set out in a summary of the Reserves Strategy at Appendix 7.

2018/19 Budget and Precept and Future Years

65. The Authority is required to set a budget and precept for 2018/19, but has to give consideration to the impact on future affordability through a MTFP.

66. The uncertainty about future planning has already been set out, in respect of 20120/21 and 2021/22, where these are beyond the current CSR, and this uncertainty applies even more to the indicative position given for 2022/23 and 2023/24.

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

	2018/19 Budget	**2019/20 Forecast**	**2020/21 Forecast**	**2021/22 Forecast**	**2022/23 Indicative**	**2023/24 Indicative**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Expenditure Forecast	32.236	33.299	33.988	34.145	34.852	35.438
Available Resources	(31.938)	(32.234)	(32.181)	(33.023)	(33.910)	(34.822)
	0.298	**1.065**	**1.807**	**1.122**	**0.942**	**0.616**
Property Reserve	(0.260)	(0.120)	(0.185)	(0.160)	(0.147)	
Budget Reduction Reserve	(0.038)	(0.945)	(1.622)	(0.962)	(0.098)	
	(0.000)	**(0.000)**	**(0.000)**	**0.000**	**0.697**	**0.616**

68. Officers will continue to work on identifying new savings, over and above those already in hand, to close the remaining budget gaps from 2022/23. It is worth stating that if the council-tax base increase in line with 2018/19 rather than the projections, then the Authority would have £0.380m more resource in 2022/23 rising to £0.470m in 2023/24.

69. Based on the above recommended strategies the formal precept calculation for 2018/19 is set out in Appendix 6. The Band D precept will rise by £2.37 (or less than 5 pence per week) to £81.90.

Budget Risks

70. Setting a net budget at £32.236m still presents risks, for example:

- Pay Award – an annual provision of 2% has been made - a variance of +/- 1% adds or saves £0.225m.
- 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 £0.225m per year.

Investment Strategy

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

72. 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

73. The Authority will not borrow to invest and will only invest funds arising from cash-flows.

74. The Authority will not invest in property or other assets with the intention of generating income.

75. Investment of funds will be via the existing Treasury Management arrangement with Worcestershire County Council, and will be restricted to the agreed financial loans to approved counter-parties.

76. Given the continuing uncertainty in financial markets, the Treasurer advises that investment should continue to be focussed on security. Primary consideration will be given to Security, Liquidity and Yield (SLY) in that order. As a consequence surplus funds continue to generate low returns which are factored into the budget.

Prudential Code Indicators

77. 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).

78. 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.

79. 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.

80. 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).

81. 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.

82. Recent revisions to the code have reduced the number of mandatory indicators, but the Treasurer believes that they continue to provide useful information to the Authority so they continue to be included.

83. 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.

84. 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)

85. 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.

86. 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.

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

Budget Calculations: Personal Assurance Statement by the Treasurer

88. 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.

89. 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

90. 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.

91. 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 2017/18 to 2018/19
Appendix 4	Revenue Budget Allocation 2018/19
Appendix 5	Medium Term Financial Forecasts 2018/19 to 2023/24
Appendix 6	Council Tax Requirement Calculation 2018/19
Appendix 7	Reserves Strategy
Appendix 8	Fees & Charges
Appendix 9	Statement of Prudential Code Indicators and Minimum Revenue Provision Policy

Background Papers

Policy and Resources Committee 31 January 2018: Budget 2018/19 and MTFP
Fire Authority 14 December 2017: MTFP Update
Policy and Resources Committee 22 November 2017: MTFP Update
Fire Authority 15 February 2017: Budget & Precept 2017/18 and MTFP

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