Hereford and Worcester Fire Authority
13 February 2012

7. Budget and Precept 2013/14 and Medium Term Financial Plan

Purpose of report

1. To determine the Revenue and Capital Budgets and the Council Tax Requirement for 2013/14.
2. To approve the Prudential Indicators and to set a Minimum Revenue Provision (MRP) policy for 2013/14.
3. To identify potential future resources, their consequential impact on future year budgets and the future Council Tax Requirement.

Recommendations

The Chief Fire Officer and Treasurer recommend that the Authority:

- ***approves the Capital Budget and Programme as set out at Appendix 7;***
- ***approves the Statement of Prudential Code Indicators set out in Appendix 10;***
- ***approve the Minimum Revenue Provision (MRP) policy for 2013/14 as set out in Appendix 11;***
- ***approves the Revenue Budget as set out in Appendices 2 and 5;***
- ***approves the Council Tax Requirement as set out in Appendix 8; and***
- ***notes the Medium Term Financial Plan (MTFP) as set out in Appendix 9.***

Background

4. The arrangements for Local Government Finance have substantially changed for 2013/14 in the two key areas of Business Rates and Council Tax Benefit/Support.

5. Up to 2012/13 all Business Rates were paid direct to government and re-distributed to Local Authorities by way of a formula. From 2013/14 a proportion of the local Business Rates (1% in the case of the FRA) is retained by the Local Authorities with 50% being paid to government. A grant is then added to the retained Business Rates so that the total is equal to the amount of grant that would have been received if the financial arrangements had not changed.

6. Up to 2012/13 Council Tax benefit was paid direct by a department of government with the effect that Council Tax was received in total from all properties on the tax-base. This has now been replaced by a system of local support where any benefits/discounts granted by the billing authority reflect in a reduced tax-base. To compensate for this the government is paying an additional grant, but at only 90% of the estimated benefit/discount to be paid.

7. The resultant gap was expected to be covered by local amendments to the scheme or choices on spending elsewhere in budgets. The impact of this change was estimated to be a loss in resource of £0.3m.

8. Whilst the changes have resulted in a new mix of grants they all form part of the government's grant control totals for deficit reduction, although prior commitments mean that parts of the total are protected for differing periods. This means that a year on year comparison is not straightforward.

9. Appendix 1 illustrates the notional difference between actual 2012/13 funding and the notional position if the new finance regime had been in place. It is not absolute and is based on some back estimation of 2013/14 figures but shows that the locally funded share decreases from 64% to 63%.

10. At the time of writing the grant settlement for 2013/14 has not been confirmed, and it is possible that this may not happen until after the FRA meeting. The budget is based on the provisional settlement and if the confirmed settlement differs an appropriately revised budget will be brought to the Policy and Resources Committee.

11. The FRA will, however, need to set the level of precept for 2013/14.

12. The Medium Term Financial Plan (MTFP) is always based on a set of assumptions about the future. In order to provide openness to our communities, emphasis continues to be placed on the reasoning behind the assumptions now being made.

13. 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.

14. The Policy and Resources Committee considered draft budget proposals on 23 January 2013 based on the provisional information then available. The Committee recommend to the Fire Authority that:

- The 2013/14 precept increase is set at 0% making the Authority eligible to receive 2013/14 Council Tax Freeze Grant equal to a 1% precept increase.
- That for future planning purposes an annual increase of 2% is assumed thereafter.
- To Accept the inflation assumptions now laid out in paragraph 36.

The Committee also noted the consequential budget gaps arising, which, as a result of final tax-base figures being better than expected, are now reduced.

Review of Available Resources

15. The latest projection of future resources can be split between formula grant and precept.

Formula Grant/Business Rate/Business Rate Support

16. In order to "set" the new finance regime referred to above, the government has calculated the amount of grant that would have been paid if the regime had not changed. This figure is equivalent to the formula grant cut included in the approved MTFP. The figure is given for 2013/14 and can be inferred for 2014/15.

17. In setting the "base-line" for 2013/14 the government has made 4 changes to the underlying formula data:
    - Introduction of a Fire rurality/sparsity element – which indicatively gives an additional £0.3m to HWFA.
    - Re-adjustment of the Relative Resources element – indicatively this takes away £0.3m from HWFA.
    - Update of population data – which appears broadly neutral.
    - Introduction of banded floors which restrict the level of cut to be experienced by some Authorities – this does not appear to have affected HWFA.

18. Additionally, the Chancellor's Autumn Statement on 5 December 2012 introduced a further 2% cut in funding over and above that already announced for 2014/15.

19. Including this late change the actual position and that included in the MTFP is very close (the difference being around £0.020m on £9.6m):

	2013/14	2014/15
Forecast in MTFP	-9.07%	-5.83%
Autumn Statement		-2.00%
Adjusted Forecast	-9.07%	-7.83%
Provisional Settlement	-8.88%	-7.85%

20. In comparison to other Fire and Rescue Authorities the cuts to HWFA are slightly above average, but this needs to be taken in the context of the first two years of the Comprehensive Spending Review (CSR) when the position was much more favourable. This does not, however, address the relative starting positions and the history of poor settlements received by this Authority.

	Average Change	HWFA Change	Range
2007/08 - 2010/11	+7.1%	+3.0%	+2.0% to +18.7%
2011/12	-6.7%	-2.4%	+0.3% to -9.5%
2012/13	-1.0%	+1.7%	+2.6% to -3.4%
2013/14	-8.7%	-8.9%	-5.4% to -11.7%
2014/15	-7.4%	-7.8%	-7.25 to -8.1%

21. Estimating future reductions is much more speculative. The grant "pot" now includes "rolled in" grant from additional sources (e.g. Council Tax support grant) which are subject to different determinants and differing statements of intent. Although these elements are transparent in 2013/14 and can be implied for 2014/15 they are indistinguishable beyond that.

22. Government has given no indication of the detail of future reductions, but the Local Government Association is advising Local Authorities to assume cuts equal to the latter 2 years of the current CSR. It should be noted, however, that cuts for Fire were back-loaded to 2013/14 and 2014/15 whilst those to other parts of local government were front-loaded to 2011/12 and 2012/13.

23. Government will be undertaking a mini-CSR in the early part of 2013 to support allocations for 2015/16. It is expected that some broad information will emerge mid-way through this year with individual Authority information in December 2013.

24. In summary the formula grant assumptions are:
    - The Council Tax support element continues to be based on 90% of expected cost.
    - The 2011/12 Council Tax Freeze element is subject to general reductions from 2015/16.
    - The overall cut in 2015/16 is 8.0% followed by a further 5.0% in 2016/17.

Precept Assumptions

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

26. As referred to above, the actual level of tax-base has fallen as a result of the localisation of Council Tax support, (offset by a new 90% grant). The tax-base will also change as a result of the impact of the local scheme adopted by the Billing Authorities and other "normal" changes in the tax-base.

27. It was estimated in the 2012 MTFP that the gross cost of the change would be around £0.3m and there was a consensus within Worcestershire Authorities that the new schemes should aim to close the gap by between 33% and 50%.

28. Billing Authorities have not provided separate information on the underlying buoyancy of the tax-base, but an estimation using historical increases, indicates a net cost of the new regime of £0.160m which is within the target range at paragraph 26 above.

29. Given the uncertainties over the new Benefit/Discount system an assumption of zero future change to the tax-base is made. This is consistent with previous years.

30. Although the annual net Collection Funds surpluses have ranged from a total of £0.013m to £0.107m there is a small deficit of £0.002m in 2013/14. In addition there have been significant annual variations, both surplus and deficit, from individual Authorities and it would be imprudent to fund core expenditure from this source. This is assumed to be nil for the future.

Council Tax Freeze Grant

31. For a further year government has offered an incentive to any FRA which freezes Council Tax for 2013/14. The arrangements are different from those for the 2011/12 and 2012/13 freeze grants, and a grant is equivalent to 1.0% of Council Tax is payable for 2013/14 and 2014/15.

32. The financial consequences of taking the grant are that there would be a bigger resource gap in 2013/14 and later years than there would be if precept were actually increased by more than 1%.

33. Following discussion the Policy and Resources Committee has recommended that the FRA approve acceptance of the Council Tax Freeze Grant in 2013/14 by setting a 0% Band D increase, and that a planning assumption of annual increases of 2.0% for future years be made.

34. This figure would be below the level (2.0%) that would require the FRA to conduct a referendum on the level of increase in 2013/14 but cannot be guaranteed for future years as it is dependent on government's future policy on Council Tax rises.

Expenditure Requirement

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

36. An assumption of general inflation at 3% has been made for the MTFP period. This should reflect the costs of items purchased by the FRA and not necessarily the level of Consumer Price Index (CPI) or Retail Price Index (RPI) inflation. The sum will be held as a provision to be allocated only when there is clear evidence of price rises. This will make it much easier to remove any over-provision from future year budgets.

37. In addition it has been thought prudent to include an additional inflation provision for 3 key areas of expenditure that are projected to individually increase well above the average CPI/RPI level. Two of these areas are utilities (gas and electricity) and diesel fuel.

38. The third area of additional inflation provision is around Business Rates. Although the annual increase is capped at RPI by legislation, there is also an impact of changes to rateable values which means that the net increase will be greater than the RPI%.

39. For 2013/14 the additional inflation provision on these (over the average level) amounts to £0.062m.

40. Although the Chancellor has made clear the government's policy on public sector pay increases (a 2 year pay freeze followed by 2 years 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; and
- the local government sector had already had a pay freeze in the year before the Chancellor's 2 year pay freeze.

41. Whilst the provision for 2013/14 has been held at the 1% guideline, it is considered prudent to provide above this for future years, although clearly if there is no pay award the resultant saving will flow through to reduce future budget gaps.

42. For 2014/15 a higher figure has been provided to reflect that after 2 years of pay freeze and 2 years at 1% there may be pressure for a significantly higher award so a provision of 2% in 2014/15 and 3% in 2015/16 is made at this stage.

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

	2013/14	**2014/15**	**2015/16**	**2016/17**
General Inflation	3.00%	3.00%	3.00%	3.00%
Utilities - Gas	15.00%	10.00%	5.00%	5.00%
Utilities - Electricity	10.00%	7.50%	5.00%	5.00%
Diesel Fuel	10.00%	7.50%	5.00%	5.00%
Business Rates	5.00%	3.50%	3.00%	3.00%
Pay Awards	1.00%	2.00%	3.00%	2.00%
Long Term Interest	4.00%	4.00%	4.00%	4.00%

Efficiencies and Savings

44. Members will be aware that the FRA has made significant efficiencies over the last 8 years to counter the poor grant settlements experienced.

45. In addition, since 2010/11 the Service has reviewed and identified significant savings without directly impacting on front-line delivery. As indicated in Appendix 6 these now total £2.3m.

Capital Programme

46. 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 7. The revenue consequences of the schemes, including financing costs, are included in the revenue budget projections in Appendices 2, 3 and 5, and the review of Prudential Indicators in Appendix 10.

47. 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 FRA negotiation position.

48. The FRA has been allocated an additional £1.8m capital grant for 2013/14 and 2014/15 which was not anticipated in the previous MTFP. This grant will be used in lieu of planned borrowing reducing the revenue implication as highlighted elsewhere in the report.

Investment of Surplus Funds

49. In accordance with the FRA Treasury Management Strategy, surplus funds are invested by and with Worcestershire County Council.

50. Given the continuing uncertainty in financial markets, the Treasurer advises that investment should continue to be focussed on security. As a consequence all surplus funds are invested with the Bank of England, and the corresponding low return continues to be factored into the budget.

51. Since October 2008 the FRA had adopted a policy of avoiding new long term borrowing, where working capital balances permit. It is likely that during 2013/14 this source will be effectively exhausted and long term borrowing will again be required to fund the capital programme.

52. The FRA will only extend long term borrowing when cash-flow requirements dictate that it is necessary, and only to finance long term assets.

Budget Risks

53. Setting a net budget at **£32.549m** still presents risks, for example:

- Pay Award – A provision of 1% has been made in 2013/14, a variance of +/- 0.5% adds or saves £0.090m.
- General Inflation – Each additional 1% costs £0.100m.

- The impact of the major changes to local government finance and the nature of estimation of future grant are unknown but each 1% difference in grant equates to around £0.100m.
- Future Council Tax Policy is also unknown, although 2.0% increase is included in the MTFP a reduction by 1.0% would reduce resources by around £0.185m.

54. In addition following the changes in local government finance the FRA now bears an income risk in relation to the level of income from Business Rates and the costs of Council Tax support. As yet there is insufficient experience of the new regime to quantify this risk with any accuracy.

Business Consultation

55. In accordance with established practice, statutory consultation with business rate-payers has been initiated by correspondence with appropriate representatives of business. (The Chamber of Commerce, the local branches of the Confederation of Small Businesses and the National Farmers' Union). To date no responses have been received.

The Budget Gap

56. Members will recall that the MTFP approved in February 2012 identified a budget gap of £1.180m for 2013/14. Officers have identified savings to close most of this gap, although additional grant reductions and Council Tax constraint have further reduced resources and increased the gap again. The table below identifies the changes since the MTFP was last approved in February 2012.

	Expenditure £m	**Resources £m**	**Gap £m**
MTFP approved Feb 2012	33.780	(32.600)	1.180
Identified Savings:			
Appendix 2 Lines 9 & 10	(0.310)		
Appendix 2 Line 27	(0.772)		
Appendix 2 Line 29	(0.100)		
	32.598	(32.600)	(0.002)
Resource Changes:			
Precept Freeze		0.410	
Local CT Schemes and tax-base buoyancy		(0.185)	
Special Grants - Firelink	0.088	(0.088)	
Collection Fund Deficit		0.002	
Transitional Grant		(0.061)	
Other net changes	0.044	(0.027)	
	32.730	(32.549)	0.181

57. The £0.181m remaining gap in 2013/14 will be closed by a further review of expenditure budgets in 2013/14 and in year savings arising from preparations for future reductions.

58. Future resources and expenditure projections, assuming the 2013/14 gap is closed, are detailed in Appendix 9 and identify future budget gaps as below:

	2014/15	**2015/16**	**2016/17**
	£m	**£m**	**£m**
Projected Expenditure Requirement	33.230	34.353	35.323
Forecast Available Resources	(32.128)	(31.268)	(31.225)
Budget Gap	1.102	3.085	4.098

59. Officers will continue to work to identify cost savings in every possible area, but with the above levels of gap, it should be acknowledged that these can only be closed with a reduction in the numbers of staff employed. The annual savings required, over and above those already achieved and identified in Appendix 6, are shown below.

	2014/15	**2015/16**	**2016/17**
	£m	**£m**	**£m**
2014/15 savings	1.102	1.102	1.102
2015/16 savings		1.983	1.983
2016/17 savings			1.013
Cumulative savings	1.102	3.085	4.098

60. The Members' Budget Seminar on 16 January 2013 outlined areas where this level of savings could be found and detailed proposals will be brought to the relevant forums for discussion and agreement during the 2013/14.

Revenue Reserves Strategy

61. The table below shows the projected position in relation to balances compared to the budget requirement over the MTFP period. The budget requirement figure is based on the projection of future resources (see Appendix 9) available rather than the budget need as this will be the determinant of future budget requirements.

	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£m	**£m**	**£m**	**£m**	**£m**
At 31st March	1.399	1.399	1.399	1.399	1.399
Net Budget (Funding)	33.821	32.549	32.128	31.268	31.225
% of Budget	4.1%	4.3%	4.4%	4.5%	4.5%

62. No other addition to balances in 2012/13 is shown as it will be recommended that the projected and managed in year underspending of £0.7m is transferred to a special earmarked reserve. This reserve would be used specifically to

meet any short term phasing costs necessary to achieve the cost reductions implied from the future budget gaps outlined in Appendix 9.

63. The average level of balances now projected at around 4.4% is marginally higher than the 4.2% in the previous MTFP and reflects further reductions in the level of future funding rather than a gain in balances. The underlying risk environment remains unchanged.

64. Latest available information shows that the average level of general reserves for non-metropolitan Fire and Rescue Authorities is just over 9% and that the level held by HWFA ranked 21 out of 24.

65. 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. The risk is, however, that any unforeseen expenditure could not be met.

66. Ear-marked balances, listed below, are held for specific purposes and at the end of 2013/14 the uncommitted balances are estimated to be:

	£m
New Dimensions	0.472
Pensions	0.422
Training	0.231
Operational Activity	0.300
Development	0.359
	1.784

- New Dimensions funding is given by the Department for Communities and Local Government (DCLG) for special activities e.g. USAR and represents funding in advance of expenditure.
- Pension Reserve is held pending final resolution of the pension element of the Retained Duty System (RDS) Part-time Workers Tribunal Agreement, and will be needed at some point in the future.
- Training Reserve is used to phase training as required.
- Operational Activity Reserve is to meet any abnormal high costs as a result of major incident deployments or sustained periods of high operational activity e.g. wide area flooding or wild land fires during a hot summer.
- Development Reserve is held to be used for capacity building, pump-priming efficiency savings or smoothing the timing of cost saving initiatives required to meet future budget gaps.

Prudential Code Indicators

67. 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).

68. 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.

69. 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 objectives of being consistent with and supporting, local strategic planning, local asset management planning and proper option appraisal.

70. 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).

71. 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 be 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.

72. In setting or revising the prudential indicators, the FRA 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.
- Practicality, e.g. achievability of the forward plan.

73. The Treasurer has prepared the prudential indicators having considered the matters above and these are set out at Appendix 10.

Minimum Revenue Provision (MRP)

74. 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.

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

76. Appendix 11 sets out the proposed position, which is a continuation of the previously approved policy.

Budget Calculations: Personal Assurance Statement by the Treasurer

77. 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.

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

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

Equality and Diversity Impact

79. 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 based on need and in this area the Service will continue to do all it can to address our diversity targets.

80. This budget settlement coincides with the removal of the requirement to report such targets at government level, and subsequently employment levels will continue to be monitored to ensure that although limited positive progress can be made in this period, what recruitment does take place happens in an environment of good equalities practice.

Financial Considerations

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

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	Yes	Refer to recommendations – FRA has statutory duty to make these decisions.

Additional Considerations

81. 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.
Resources (E.G. Assets, ICT, Human Resources, Training & Development, Sustainability).	Yes	
Strategic Policy Links (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	Yes	
Risk Management / Health & Safety (e.g. risk management and control measures, risk register score).	No	
Consultation with Representative Bodies	No	

Supporting Information

Appendix 1	Comparison of 2012/13 Funding
Appendix 2	Revenue Budget 2013/14
Appendix 3	Explanation of variations in Appendix 2
Appendix 4	Personnel Budget
Appendix 5	Initial Revenue Budget Allocation 2013/14
Appendix 6	Savings since 2010/11
Appendix 7	Capital Programme
Appendix 8	Council Tax Requirement Calculation 2013/14
Appendix 9	Medium Term Financial Forecasts
Appendix 10	Statement of Prudential Code Indicators
Appendix 11	Minimum Revenue Provision policy 2012/13

Background Papers

Fire and Rescue Authority – 12th December 2012 Report:
Financial Prospects 2013/14

Policy and Resources Committee – 23rd January 2013 Report:
Budget 2013/14 and Review of Medium Term Financial Plan

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