

## 6. 2011/12 Budget Preparation

### Purpose of Report

1. To review the current position in relation to budgets for 2011/12 and beyond.

### Recommendations

***The Treasurer and Chief Fire Officer recommend that the Committee:***

- ***Based upon the content of this report, recommend to the FRA that, subject to confirmation of the grant figure and appropriate adjustments for the final tax-base figures, approve the Budget Requirement and consequential precept.***

### Available Resources

2. Members will be aware that the provisional grant settlement was announced late on 13 December and an updated report was provided to the FRA on 17 December 2010.
3. The grant settlement itself, whilst still challenging, is better than forecast with an impact of:
  - 2011/12 : 2.4% cut (compared to 6% cut forecast)
  - 2012/13: 1.7% increase (compared to 3% cut forecast)
4. H&WFRA appears to have benefited from the implementation of formula changes, exemplified in the October consultation, which were robustly supported in the FRA response, and during a meeting between The Chief Fire Officer, Director of Finance, local MPs and the Fire Minister in Westminster. The H&WFRA impact compares favourably to the overall position of other English FRAs.
  - 2011/12 : 2.4% cut (6.7% cut nationally)
  - 2012/13 : 1.7% increase (1.0% cut nationally)
5. It should not be forgotten, however, that whilst the grant settlement is better than the average of English FRAs it comes after several years of poor settlements and is a slowing of the deterioration rather than a cessation of deterioration in grant settlements. The table below demonstrates the relative grant changes for the FRAs in the region, and shows that the 2011/12 settlement is only part of the picture.

	04/05 to 10/11	10-11 to 11/12	04/05 to 10/11
H&W	0.3%	-2.4%	-2.1%
Shrops	17.5%	-9.5%	6.3%
Staffs	9.0%	-0.3%	8.7%
W Mids	4.9%	-9.5%	-5.1%
All FRA	5.7%	-6.7%	-0.7%

6. This range of positions is replicated nationally and some authorities are only now having to contemplate the significant efficiencies that H&WFRA has made since 2004/05 when FRAs began to receive formula grant in their own right.
7. There was no indication of grant for 2013/14 and 2014/15 in the settlement announcement and the working assumption must be that the balance of the overall 25% reduction in grant to English FRAs (i.e. 16%) over the Comprehensive Spending Review period will be made in these 2 years and in this paper it is assumed to be evenly split.
8. The Council Tax freeze arrangements mean that setting a 0% increase in council tax in 2011/12 will provide a grant from central government equal to 2.5% of the precept yield
9. The final tax-base will not be known until the Billing Authorities provide their figures in late January. Until then a prudent assumption of an unchanged position has been made. Over the last 5 years the tax-base has increased annually on average by 0.7%. Such an increase in 2010/11 would yield an extra £0.140m.
10. In addition, there is the possibility of the impact of a net surplus or deficit on the Billing Authorities' Collection Funds. In 2010/11 this yielded £0.083m, but has historically ranged from £0.013m to £0.107m additional funds. However, there is a possibility that the net position could be in deficit. The prudent assumption is not to rely on this as a source of income and to assume a zero position.
11. In compiling the resources projection (Appendix 1) no assumption has been made regarding the increase of Council Tax above the current level, i.e. 0% increase for each year of the CSR period but this is a matter that Members may wish to consider (see paragraphs 27 and 28 below).
12. Appendix 1 gives details of the potential resources, which are summarised below:

	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>Actual</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Formula Grant	10.668	10.409	10.583	9.931	9.319
Precept	20.726	20.643	20.643	20.643	20.643
	<b>31.394</b>	<b>31.052</b>	<b>31.226</b>	<b>30.574</b>	<b>29.962</b>
Grant as % of overall resources	34%	34%	34%	32%	31%

## Expenditure Requirement

13. Since the last FRA meeting on 17 December 2010 DCLG has subsequently announced the cancellation of the Regional Fire Control project (RCC).
14. In accordance with the FRA Urgent Decisions process (reported elsewhere in the agenda), approval was given for the Service to go to tender to seek a replacement Command and Control system to replace the existing system which has been

devoid of investment for a number of years due to the assumption that a regional provision would be in place.

15. Although Officers expect a significant saving on the £0.365m anticipated steady state cost of RCC, the final costing for alternative arrangements, including RCC legacy issues, are yet to be finalised. As a consequence the budget requirement projections continue to include the estimated RCC costs.
16. Future budget projections are based on the following assumptions and associated risk:
  - General Inflation at 3.0% pa (with some additional provision for fuel/utilities) – each additional 1% of general inflation would cost £0.100m pa.
  - Pay Awards – assumed at 0% for 2011 (in accordance with the Chancellor's policy on public sector pay) and 2% pa thereafter. Each increase of 1% would cost £0.225m pa ongoing.
  - Capital Financing – the revenue cost of the future capital programme (essential replacement of operational assets) is based on the prevailing level of borrowing rates. If government policy on interest rates changes significantly in the 4 year MTFP period this may have an impact on the cost of the programme in the future.
17. Appendix 2 gives details of the forecast budget need which is summarised below:

	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Forecast Budget Need	31.152	32.602	33.713	34.746

### **Budget Gap**

18. The forecast expenditure need and projected available resources give a budget gap analysed as follows:

	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Forecast Budget Need	31.152	32.602	33.713	34.746
Forecast Resources	31.052	31.226	30.574	29.962
Budget Gap	0.100	1.376	3.139	4.784

19. Although the 2011/12 budget is now broadly balanced the future cumulative savings to be identified are:

	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
2011/12 on going savings	0.100	0.100	0.100
Additional and on-going 2012/13 savings	1.276	1.276	1.276
Additional and on-going 2013/14 savings		1.763	1.763
Additional and on-going 2014/15 savings			1.645
	1.376	3.139	4.784

20. Whilst the favourable settlement has mitigated the position in the first year, there are still significant potential savings to be made in the later years.
21. This projection is made assuming no increase in Council Tax; see paragraphs 28 and 29 below.

### **Closing the Future Budget Gap**

22. Whilst the short term grant settlement is better than anticipated it is important to note the significant financial challenges facing the Authority in future years.
23. In anticipation of a much worse 2011/12 settlement the Principal Management team has been working over the past few months to challenge individual budget lines and areas of spend, identifying options for change and reduction in expenditure.
24. A saving of £0.140m has been identified through a reduction of an Assistant Chief Fire Officer (ACFO) post and this is now incorporated into the budget projections.
25. Members, Officers and staff shared initial ideas on areas to seek efficiencies through the Meeting the Challenge workshops earlier in the year and these have informed both the 2011/12 IRMP proposals and other emerging plans to address the financial challenges ahead.
26. Work will continue during 2011/12 to scrutinise all areas of spend and opportunities for change and reductions in expenditure.
27. It is anticipated that the projected savings required from 2012/13 onwards cannot be met from back office efficiencies alone and changes to service levels cannot be ruled out.
28. Beyond 2010/11 the FRA will have control of local council tax policy and may choose to use this method of increasing resources to ease the budget gap. For information an annual 2.5% increase in council tax (which equates to under 4 pence per Band D tax-payer per week) would increase available resources by:

	<b>2012/13 Forecast £m</b>	<b>2013/14 Forecast £m</b>	<b>2014/15 Forecast £m</b>
2012/13	0.516	0.516	0.516
2013/14		0.529	0.529
2014/15			0.542
	<b>0.516</b>	<b>1.045</b>	<b>1.587</b>

29. This would reduce the budget gaps to:

	<b>2012/13 £m</b>	<b>2013/14 £m</b>	<b>2014/15 £m</b>
Raw Gap	1.376	3.139	4.784
Potential Precept Increase	0.516	1.045	1.587
	<b>0.860</b>	<b>2.094</b>	<b>3.197</b>

## General Reserves

30. The level of general reserves at 31 March 2010, as shown in the Statement of Accounts has been artificially reduced to reflect the requirements of the External Auditor in accounting for the retirement of the previous Chief Fire Officer. In order to give a more appropriate position on balances this reduction has now been restored.
31. The table below shows the projected position in relation to the general reserve compared to the revenue budget requirement over the MTFP period. Particular attention is drawn to:
- The planned increase in 2010/11 and usage in 2011/12 relates to the potential costs of RDS Part Time Workers compensation, referred to in the Financial Results paper to the June 2010 FRA and in the Statement of Accounts 2009/10. Final details are still awaited from DCLG.
  - The revenue budget requirement figure is based on the projection of resources available, rather than the budget need, as this will be the key determinant of future budget requirements.

	2010/11	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m	£m
Balance at 1 April	0.642	1.401	1.151	1.151	1.151
Adjustment	0.488				
Planned Increase	0.271				
Planned Usage		(0.250)			
Balance at 31 March	1.401	1.151	1.151	1.151	1.151
Budget Requirement		31.052	31.226	30.574	29.962
% of Revenue Budget Requirement		3.7%	3.7%	3.8%	3.8%

32. The marginal increase in the percentage over the MTFP period (2011/12 to 2014/15) is a result of the declining budget requirement due to grant reductions. The position is worse than the 4.9% in the previous MTFP (Feb 2010) as a result of the reduction in predicted under spend in 2009/10 and the 2011/12 usage in respect of compensation payments to RDS staff.
33. Whilst this level of general reserves is desirable (see budget risks in paragraph 15) there is an opportunity cost of holding reserves. They could be used to finance one-off expenditure or temporarily reduce the Council Tax precept. The risk however, is that if balances are reduced there is less scope to meet any unforeseen expenditure.
34. Members will be aware of the creation of the contingency reserve in 2010/11 to assist with the short term costs of reducing overall expenditure had the grant settlement been worse than expected. These conditions have merely moved to later years and it is suggested that this reserve is maintained as an "Organisational Development" earmarked reserve, to facilitate a planned approach to reducing budget expenditure or building capacity over future years.

## Equality and Diversity Impact

35. The immediate impact on recruitment activities means that progress against equality and diversity targets for the recruitment of wholetime female and 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.
36. 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.

## Future Progress

37. The consultation period on the provisional settlement ends on 17 January and grant figures should be confirmed soon after.
38. Tax-base figures will be finalised by Billing Authorities by the end of January.
39. The Fire and Rescue Authority will meet on 16 February to determine Revenue and Capital Budgets for 2011/12 and the consequential Council Tax Precept.

## 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	No	

## Additional Considerations

40. 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).	Y	Whole report
<b>Strategic Policy Links</b> (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	Y	Whole report
<b>Risk Management / Health &amp; Safety</b> (e.g. risk management and control measures, risk register score).	N	
<b>Consultation with Representative Bodies</b>	N	

### Supporting Information

Appendix 1: Resources Projection

Appendix 2: Expenditure Requirement Forecast

### Background Papers

None

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