

5. Budget 2012/13 and Review of Medium Term Financial Plan

Purpose of Report

1. To review the current position in relation to budgets for 2012/13 and beyond.
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Recommendations

The Chief Fire Officer and Treasurer recommend that the Committee:

- *Determines whether to recommend to the FRA to take the council tax freeze grant in 2012/13 or a level of precept increase for 2012/13;*
- *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 2012/13;*
- *Recommends to the FRA the Precept policy for the Medium Term Financial Plan period; and*
- *Notes the consequential budget gaps arising.*

Background

2. In February 2011 the Fire and Rescue Authority (FRA) agreed a Medium Term Financial Plan (MTFP) for 2010/11 to 2013/14.
3. The November 2011 meeting of this Committee and the December 2011 meeting of the FRA considered the impact of revised information on grants and cost projections, and more detail of the affect on the 2012/13 budget and precept.
4. Members have been made aware of the consequences of taking or not taking the Council Tax Freeze Grant and are now asked to make a recommendation to the FRA on this matter.
5. The Medium Term Financial Plan is always based on a set of assumptions about the future. Given the unprecedented degree of financial uncertainty the country now faces, and in order to provide more openness to our communities, more emphasis has been placed on the reasoning behind the assumptions now being made.
6. The assumptions for future years (2013/14 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.

Review of Available Resources

7. Appendix 1 shows the latest projection of future resources and can be split between formula grant and precept (based on the current MTFP).

Formula Grant

8. In December 2011 the government published a Bill to implement the changes proposed in the Local Government Resource Review. From 2013/14 this will have a fundamental impact on the way the FRA is funded with the removal of central government grant and its replacement by retention of a share of the Business Rate yield.
9. The full details of how this will work for Fire and Rescue Authorities is not known but government has indicated that no FRA will receive less money than it would have received under the grant assumptions under the Comprehensive Spending Review (CSR).
10. As has been indicated by the Department for Communities and Local Government (CLG) no FRA would have known its 2013/14 grant until Dec 2012 in any case, so as has been previously indicated the grant assumptions for 2013/14 and 2014/15 are based on the known national Fire grant control totals.

11. This itself provides a degree of risk as the grant changes experienced in 2011-12 and 2012-13 have varied significantly between individual FRAs as the table below illustrates. (Each additional 1% change is worth about £0.100m to H&WFRA).

	Overall Change	H&W Change	Range of Changes
2011-12	-6.7%	-2.4%	+0.3% to -9.5%
2012-13	-1.0%	+1.7%	+2.6% to -3.4%
2013-14	- 8.5%	?	?
2014-15	-5.0%	?	?

12. Furthermore, following the Chancellor's statement that there will be a further 2 years of public sector pay restraint (capped at 1%) government has announced that the previously indicated grant totals will reduce because the planning was based on a higher (but unspecified) assumption about pay awards.
13. To date the information is only available at total local government grant level and cannot be split to the Fire Service nationally. An estimate has been made assuming that the existing grant totals incorporated an assumption of pay awards at 2%.
14. Additionally the Chancellor also announced a further 2 years of "austerity" following the current Comprehensive Spending Review (CSR) period which was also the period of the current MTFP. In the absence of any other information and without knowing the outcome of paragraphs 8 to 10 above, an assumption of a further 5% cut in grant (based on the 2014/15 figure) following this CSR period has been assumed.
15. In summary the formula grant assumptions are:
 - An 8.5% cut in 2013-14 – with an adjustment for reduced pay awards.
 - A 5.0% cut in 2014-15 – with an adjustment for reduced pay awards.
 - A further 5.0% cut in 2015-16.

Precept Assumptions

16. The precept assumptions can be sub-divided into those relating to the tax-base and those relating to the Band D level of tax and any changes to it.
17. As with formula grant, proposed changes to Local Government Resourcing, particularly regarding the localisation of Council Tax Benefit and the implications on precepting authorities, will have an as yet un-quantified impact on precept levels.
18. The Authority's MTFP has always taken a cautious approach to assumptions about future increases in the tax base. Although the average increase over the last 7 years has been 0.7% no increase has been forecast for planning purposes. In the light of the uncertainty referred to in paragraph 17 above, this assumption is continued for future years.
19. In respect of 2012/13, 4 of the 7 Billing Authorities have already notified tax-base increases averaging 0.6%. It is not possible to accurately predict the figures for the other 3 Billing Authorities although final figures will be known by the time of the FRA meeting.
20. Additionally each year there is a potential net surplus or deficit on the Billing Authorities Collection Funds. In the past this has ranged from a total of £0.013m to £0.107m (being £0.031m in 2011/12) but has never been budgeted for as there are significant variations both surplus and deficit from individual authorities and it would be imprudent to fund core expenditure from this source.
21. The Billing Authorities reporting to date are likely to declare no balances (although the final figures will be known for the FRA meeting in February), and this figure is likely to be significantly affected by the changes in paragraph 17 above.
22. In Feb 2011 the FRA approved a planning assumption of an annual increase in precept of 3.45% for 2012/13, 2013/14 and 2014/15.
23. The figure is below the level (4.0%) that would require the FRA to conduct a referendum on the level of increase and therefore the risk of capping (or similar) is eliminated.
24. The consequences of the offered Council Tax Freeze Grant are dealt with in paragraphs 26-30 below.
25. In summary the formula grant assumptions are:
 - Tax-base increase of 0.25% for 2012-13 (subject to final figures).
 - No tax-base change thereafter.
 - No Collection Fund surpluses or deficits (2012-13 subject to final figures).
 - Annual increase of 3.45% in the Band D precept.

Council Tax Freeze Grant

26. For a further year government has offered a grant to any FRA which freezes council tax for 2012/13. The grant is equivalent to 3.0% of Council Tax, but unlike the 2011-12 grant it is payable for one year only.
27. The financial consequences of taking the grant are that there would be a bigger resource gap in 2013-14 than would otherwise be the case.
28. Attention is drawn to the fact that the 2011-12 Freeze Grant is only payable until 2014-15 and so in the additional MTFP year, i.e. 2015-16 this no longer appears.
29. Funding resources available assuming the grants were taken are shown in Appendix 2, and funding resources under the two options are summarised below:

	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m
Available Resources	(32.110)	(31.894)	(32.101)	(32.443)
Available Resources (with Freeze grant)	(31.392)	(31.151)	(31.333)	(31.648)

30. It should be noted that for the purposes of Council Tax setting, the Freeze Grants are required to be shown as income netting off from expenditure rather than as funding, this means that, if taken, the £0.627m freeze grant will show as a reduction in the expenditure requirement rather than an increase in available resources.

Expenditure Requirement

31. The expenditure requirement has continued to be refined and the key assumptions around pay, inflation and interest rates are outlined in the paragraphs below.
32. Previous iterations of the budget requirement have used an average 2% or 3% figure for general inflation. In November 2011, as part of the collection of data for the Firefighters Pension Top Up Grant, CLG provided the Treasury planning assumptions for Consumer Price Index (CPI) inflation for the CSR period. In the short term, particularly, these seem to more closely represent the reality of current experience, and the short term figure has been used for 2012/13.
33. 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/Retail Price Index (RPI) level. Two of these areas are utilities (gas and electricity) and diesel fuel.
34. 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 which means that the net increase will be greater than the RPI %.
35. 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.
- The local government sector had already had a pay freeze in the year before the Chancellor's 2 year pay freeze.

36. Whilst the provision for 2013-14 and 2014-15 has been held at the 1% guideline, it has been considered prudent to provide a provision for 2012-13 above the 0% level, although clearly if there is no pay award the resultant saving will flow through to close the future budget gaps.
37. 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.
38. The relevant assumptions are summarised below in tabular form for ease of reference:

	2012/13	2013/14	2014/15	2015/16
General Inflation	4.30%	3.00%	3.00%	3.00%
Utilities - Gas	15.00%	15.00%	10.00%	5.00%
Utilities - Electricity	10.00%	10.00%	7.50%	5.00%
Diesel Fuel	10.00%	10.00%	7.50%	5.00%
Business Rates	7.50%	5.00%	3.50%	3.00%
Pay Awards	1.00%	1.00%	2.00%	3.00%
Long Term Interest	3.00%	4.00%	4.00%	4.00%

39. The consequential budget requirement projections are shown in detail in Appendices 3 and 4. The net budget requirement is summarised below:

	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m
Appendix 3 Budget Req. - without Freeze Grant	32.324	32.773	33.756	35.752
Appendix 4 Budget Req. - with Freeze Grant	31.697	32.773	33.756	35.752

Budget Gap

40. The forecast budget requirement and projected available resources based on the assumptions outlined at paragraphs 15, 25 and 38 above, give a cumulative budget gap as indicated below:

	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m
Budget Requirement	32.324	32.773	33.756	35.752
Available Resources	(32.110)	(31.894)	(32.101)	(32.443)
Budget Gap	0.214	0.879	1.655	3.309

41. If the 2012-13 Council Tax Freeze Grant were to be taken, as referred to in paragraphs 26 to 30 above, the budget gap in 2012-13 is marginally greater, but is significantly greater thereafter. This is summarised overleaf:

	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m
Budget Requirement	31.697	32.773	33.756	35.752
Available Resources (with Freeze Grant)	(31.392)	(31.151)	(31.333)	(31.648)
Budget Gap	0.305	1.622	2.423	4.104
Impact of taking Freeze Grant	0.091	0.743	0.768	0.795

42. It is clear that the financial consequences of taking the Freeze grant in 2012-13 are likely to be significantly disadvantageous in the medium term.

Closing the Budget Gap

43. The Senior Management Board and other officers have been scrutinising budgets in detail throughout 2010-11 and 2011-12, and will continue to do so.
44. Restructuring plans, involving potential redundancies amongst support staff, are currently in consultation but it is expected that these may deliver savings which will cover the budget gap in 2012/13.
45. Plans are in progress to close the gap outlined at paragraph 40 above for the current CSR period.

General Reserves

46. The level of general reserves shown in the Statement of Accounts at 31 March 2011 reflects the accounting arrangements for the provision created in the Accounts in 2009/10. As this matter is now resolved reserves will be adjusted during 2011/12.
47. The table below shows the projected position in the general reserve in relation to the revenue budget requirement over the MTFP period. The budget requirement is based on the limiting factor of available resources (assuming no take up of the 2012/13 Council tax freeze grant).

	2011/12	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m	£m
General Reserves balance at 1st April	0.934	1.396	1.396	1.396	1.396
Adjustment in 2011/12	0.462				
Balance at 31st March	1.396	1.396	1.396	1.396	1.396
Budget Requirement	31.195	32.110	31.894	32.101	32.443
% of Budget Requirement	4.5%	4.3%	4.4%	4.3%	4.3%

48. These figures are slightly higher than the 3.7% to 3.8% position in the current MTFP reflecting the additions to balances in 2010-11 as a result of prudent budget management.

49. Whilst this level of balances remains prudent, especially with the significant uncertainty over grants, pay awards, inflation and future funding arrangements etc; 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.

Future Progress

50. Officers will continue to refine the budget figures and provide final tax-base and collection fund figures.
51. The FRA will meet on 15 February 2012 (10.30am) to agree a budget and precept for 2012-13.

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

52. 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	Whole report
Strategic Policy Links (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	Yes	Whole report
Risk Management / Health & Safety (e.g. risk management and control measures, risk register score).	No	
Consultation with Representative Bodies	No	

Supporting Information

Appendix 1: Resource Projection
Appendix 2: Resource Projection – with Tax Freeze Grant
Appendix 3: Expenditure Requirement
Appendix 4: Expenditure Requirement - with Freeze Grant

Background Papers

None

Contact Officer

Martin Reohorn, Director of Finance and Assets
(01905 368205)

Email: mreohorn@hwfire.org.uk