

## **5. Budget 2013/14 and Review of the Medium Term Financial Plan (MTFP)**

### **Purpose of Report**

1. To review the current position in relation to budgets for 2013/14 and beyond, and to make recommendations to the Fire and Rescue Authority (FRA).

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### **Recommendations**

***The Chief Fire Officer and Treasurer recommend that the Policy and Resources (P&R) Committee :***

- ***determines whether to recommend to the FRA to take the Council Tax freeze grant in 2013/14 or a level of precept increase for 2013/14;***
- ***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 2013/14;***
- ***recommends to the FRA the precept policy for the Medium Term Financial Plan (MTFP) period; and***
- ***notes the consequential budget gaps arising.***

### **Background**

2. In February 2012 the FRA agreed a MTFP for 2011/12 to 2014/15.
3. The November 2012 meeting of this Committee and the December 2012 meeting of the FRA considered further information on funding changes that were being discussed, but in the absence of anything firm were not able to draw any conclusions.
4. Provisional information has now been received to finalise the main figures in the resourcing side of the budget equation, specifically:
  - Share of Grant Totals.
  - Estimated Council Tax-bases (after localised Council Tax Benefit).
  - Treasury estimates of Business Rate Yield.
5. Final Information on the following is expected towards the middle of January (and may be available for a verbal update to the Committee on 23 January 2013):
  - Final Council Tax-base - from Billing Authorities.
  - Estimate of Business Rate income - from Billing Authorities.
  - Confirmation of grants - from the Department of Communities and Local Government (DCLG).
6. The MTFP 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, continued emphasis is being placed on the reasoning behind the assumptions now being made.



7. The assumptions for future years (2014/15 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.
8. The years 2015/16 and beyond are after the current Comprehensive Spending Review (CSR) period and potentially after a General Election, although it is expected that the general direction of funding will be un-affected.

## **Review of Available Resources**

9. The review of future resources can be split between formula grant (and its equivalent from 2013/14) and precept.

## **Formula Grant**

10. As Members will be aware, the government will be implementing significant changes in the way local government is financed from April 2013.
11. Instead of all Business Rate income going direct to the Treasury for re-distribution as grant, 50% of the income will now be directly retained by local government with only 50% going to the Treasury.
12. The FRA will receive 1% of the amount collected by the Billing Authorities.
13. In order to “set” the new financial regime the government has calculated the amount of grant that would have been received if the finance regime had not been changed. In the case of an FRA any difference between this figure and the expected Business Rate income will be paid as grant.
14. This baseline figure has been published for both 2013/14 and 2014/15 and is in effect equivalent to the grant cut included in the MTFP.
15. In setting the “base-line”, government has made four changes to the underlying formula data:
  - Introduction of a rurality/sparsity element – indicatively this has given Hereford & Worcester Fire and Rescue Service (HWFRS) an extra £0.3m.
  - Re-adjustment of the Relative Needs element – indicatively this has reduced HWFRS by £0.3m.
  - Update of population data – neutral.
  - Banded floors – although in practice this has had no impact on HWFRS.
16. In addition the Chancellor’s Autumn Statement (on 5 December 2012) announced a further 2% cut in Local Authority grant totals for 2014/15.
17. No firm indication of the level of grant cuts for 2015/16 has yet been given, but there have been suggestions that a figure of 8% would not be improbable. Details are likely to be known by mid-2013.
18. The Local Government Association has advised Local Authorities to assume 2015/16 cuts in line with 2013/14 and 2014/15; however their cuts were front-loaded to the first two years of the CSR period, whilst Fire was back-loaded.



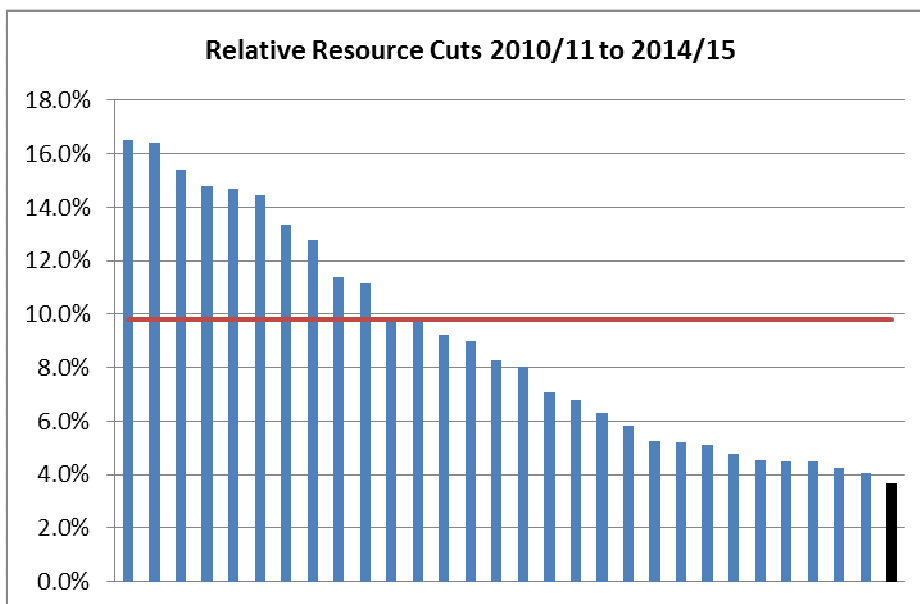
19. This final position (allowing for the additional cut announced on 5 December 2012) is very close to the projection made within the MTFP as shown below:

	2014/15	2015/16	2016/17	2017/18
Forecast in MTFP	-9.07%	-5.83%	-5.00%	
Autumn Statement Effect		-2.00%		
Adjusted Forecast	-9.07%	-7.83%	-5.00%	
Actual	-8.88%	-7.85%		
Revised Forecast			-8.00%	-5.00%

20. In comparison to other Services the cuts are slightly above average but come after a significantly better position in years 1 and 2.

	Overall Change	HWFRS 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	-8.7%	-8.9%	-5.4% to -11.7%
2014/15	-7.4%	-7.8%	-7.2% to -8.1%

21. It must also be remembered that the grant only funds one third of HWFRS spending compared to some Authorities where it funds two thirds of expenditure. The impact of grant cuts on the overall resources of FRAs for the whole of the CSR period are shown in the graph below (HWFRS is the column on the extreme right):



22. Overall, therefore, allowing for the late changes introduced by the Chancellor last month, the grant position is virtually as estimated in the MTFP.



## **Precept Assumptions**

23. 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.
24. In addition to the changes to the grant regime outlined above, 2013/14 is the first year of the new arrangements in relation to Council Tax Benefit.
25. Currently there is a national scheme under which benefit is refunded to local authorities at a 100% rate by the Department of Work and Pensions.
26. From 2013/14 this is being replaced by Local Council Tax Support Schemes at individual billing authority level. This means that the cost of the benefit will fall on the local tax-payer and result in a reduced amount of Council Tax income being received.
27. To compensate for this government will pay all Authorities an additional fixed grant, which nationally equates to 90% of the cost of the benefit expected to be paid. It is expected that Local Authorities (including preceptors) will contain the 10% difference within their existing budgets, or that the Billing Authorities will re-engineer their local schemes to reduce cost.
28. The technical impact of the above is to reduce the tax-base on which the FRA sets its precept and receives Council Tax income, offset by an additional grant. Prior to any information being available on how the arrangements were expected to work, a net cost of £0.3m was estimated within the MTFP.
29. Based on information provided by most of the Billing Authorities during the development process it is clear that the initial cost estimate of £0.3m is about right. However, in designing the schemes to reduce financial impact it is probable that about £0.2m of this cost will be recovered by net changes to the schemes. This is a financially favourable development.
30. In setting the current MTFP the FRA recommended a planning assumption that the Band D equivalent should rise by 3.45% annually over the MTFP period. This was based on the freeze grant and referendum limits for 2012/13.
31. Government has now announced a further freeze grant for 2013/14 (equal to 1%) and a referendum limit of 2% (with some relaxation for certain FRAs).
32. As Members will recall, if the FRA wished to set a precept above the 2% limit; in order to cover the costs of a referendum and provide worthwhile additional resource an increase exceeding 6% would be needed. Members may wish to consider the implications of such an approach.
33. It is not clear what the government's precept policy will be for 2014/15 and beyond. With the approach of a General Election in 2014/15 government may wish to be seen to cap Council Tax rises for a fourth year. It may be prudent, therefore, to assume that precept income will rise by only 1% in 2014/15, either by a further reduced referendum limit or another freeze grant offer.



34. The revised precept assumptions are shown below:

	<b>MTFP</b>	<b>Current</b>	
2013/14	3.45%	0.00%	(1% freeze grant)
2014/15	3.45%	1.00%	(or freeze grant)
2015/16	3.45%	2.00%	
2016/17	n/a	2.00%	

## Resource Summary

35. The net impact of the resource estimate changes outlined above is shown in the table below:

	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>MTFP Resource Estimate</b>	<b>32.600</b>	<b>32.784</b>	<b>32.934</b>	<b>n/a</b>
Grant Control Totals	0.021	- 0.175	- 0.474	
Reduced precept increases	- 0.451	- 0.886	- 1.411	
Council Tax Benefit Changes	0.168	0.023	- 0.061	
<b>Latest Resource Forecast</b>	<b>32.338</b>	<b>31.746</b>	<b>30.988</b>	<b>30.938</b>

36. Should the FRA wish to increase precept up to the current referendum limit the additional resource impact is as outlined below:

	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Latest Resource Forecast	32.338	31.746	30.988	30.938
Additional Precept	0.160	0.352	0.574	0.585
<b>Alternative Resource Forecast</b>	<b>32.498</b>	<b>32.098</b>	<b>31.562</b>	<b>31.523</b>

## Expenditure Requirement

37. The MTFP identified a budget cap of £1.180m for 2013/14 (see Appendix 1: Line 1) and, as planned, officers have focussed on closing this gap during 2012/13.
38. The measures taken are outlined in the appendix and, as can be seen (Appendix 1: Line 14), have effectively closed the 2013/14 gap identified in the MTFP and made a significant impact on future years.
39. Members are reminded that these savings are on top of those identified in the previous two years and have not directly impacted on services to our communities. For information these cumulative on-going savings totalling £2.3m are listed in Appendix 2.
40. The expenditure requirement has continued to be refined and the key assumptions around pay, inflation and interest rates are outlined in the paragraphs below.
41. An average 3% figure for general inflation has been used. Although this is above the Bank of England target, current forecasts indicate that this will be exceeded for the next couple of years.



42. In addition it has been thought prudent to include an additional inflation provision for three key areas of expenditure that are projected to individually increase well above the average Consumer Price Index (CPI)/Retail Price Index (RPI) level. Two of these areas are utilities (gas and electricity) and diesel fuel.
43. 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 and phasing out of transitional relief which means that the net increase will be greater than RPI.
44. Although the Chancellor has made the government's policy on public sector pay increases for the CSR period very clear (a two year pay freeze followed by two 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 two year pay freeze.
45. Whilst the provision for 2013-14 (Year 3) has been held at the 1% guideline, it has been considered prudent to provide a higher figure for later years to reflect that after two years of pay freeze and two years at 1% there may be pressure for a significantly higher award so a provision of 2% in 2014/15, 3% in 2015/16 dropping back to 2% in 2016/17 is made at this stage.
46. The relevant assumptions are summarised below in tabular form for ease of reference:

	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
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%

47. The consequential budget requirement projections are shown in detail in Appendix 1, and are summarised below:

	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Projected Budget Requirement	32.642	32.323	34.446	35.416

## **Budget Gap**

48. The forecast budget requirement and projected available resources based on the assumptions outlined in the above paragraphs give a cumulative budget gap as indicated below:



	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Projected Budget Requirement	32.642	33.323	34.446	35.416
Latest Resource Forecast	(32.379)	(31.746)	(30.988)	(30.938)
Gap	0.263	1.577	3.458	4.478

49. This will require the identification of cost reductions as below:

	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
On-going reductions needed 13/14	0.263	0.263	0.263	0.263
Further on-going reductions needed 14/15		1.314	1.314	1.314
Further on-going reductions needed 15/16			1.881	1.881
Further on-going reductions needed 16/17				1.020
	0.263	1.577	3.458	4.478

50. If the FRA decided to increase precept in 2013/14 and 2014/15 in line with the referendum limit (see paragraph 36) then the cost reduction requirement would consequentially be reduced, as summarised below:

	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
On-going reductions needed 13/14	0.103	0.103	0.103	0.103
Further on-going reductions needed 14/15		1.122	1.122	1.122
Further on-going reductions needed 15/16			1.659	1.659
Further on-going reductions needed 16/17				1.009
	0.103	1.225	2.884	3.893

### Closing the Budget Gap

51. The Senior Management Board and other officers have been scrutinising budgets in detail throughout 2012-13 (and previous years) and will continue to do so. The adjustments necessary to close the 2013/14 gap will be identified prior to the FRA meeting on 13 February 2013.
52. The Members' Workshop on 16 January 2013 outlined areas of savings that could be used to close the future gaps. Dependent on Members' decisions on options these will be further developed during 2013/14.

### General Reserves

53. Although a planned under-spending of £0.7m is forecast for 2012/13, it will be recommended that this is held as a reserve specifically to fund one-off or short term costs associated with implementing the organisational changes that will be necessary to close the budget gaps over the next four years.
54. The table below shows the projected position in the general reserve in relation to the revenue budget requirement over the new MTFP period. The budget requirement is based on the limiting factor of available resources.



	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
General Reserves balance at 1 April	1.399	1.399	1.399	1.399	1.399
Budget Requirement	33.78	32.379	31.746	30.988	30.938
% of Budget Requirement	4.14%	4.32%	4.41%	4.51%	4.52%

55. These figures are broadly in line with the previous MTFP, and are only marginally proportionately higher because of the reduced resource projections.
56. Relative to other FRAs this level of balance is not high, and it should be noted that the FRA now bears a risk in relation to Council Tax Benefit and Business Rate take, and so are more directly connected to local economic conditions.
57. Whilst this level of balances remains prudent 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, and a temporary reduction in Council Tax cannot be readily recovered.

### Future Progress

58. Officers will continue to refine the budget figures and will receive final tax-base, collection fund figures, and estimated business rate income.
59. There will have been a Budget Seminar for all Members on 16 January 2013, in which the options for budget gap closure will have been outlined
60. The FRA will meet on 13 February 2013 to agree a budget and precept for 2013-14.

### 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

61. 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).	Yes	Whole report
<b>Strategic Policy Links</b> (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	Yes	Whole report
<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: MTFP Review

Appendix 2: Budget Savings to date

### Background Papers

FRA 15 February 2012: Budget and Precept 2012/13 and MTFP

P&R Committee 5 September 2012: Financial Prospects 2013/14

P&R Committee 21 November 2012: Financial Prospects 2013/14

FRA 12 December 2012: Financial Prospects 2013/14

DCLG Express Edition Newsletter 19 December 2012

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