Hereford & Worcester Fire Authority
17 February 2016

Report of the Treasurer and the Chief Fire Officer

8. Budget and Precept 2016-17 and Medium Term Financial Plan

Purpose of report

1. To determine the Revenue and Capital Budgets and the Council Tax Requirement for 2016/17.
2. To approve the Prudential Indicators and Minimum Revenue Provision (MRP) Statement for 2016/17.
3. To identify potential future resources, their consequential impact on future year budgets and the future Council Tax Requirement.

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 Authority calculates that in relation to the year 2016/17:

- ***a) the aggregate expenditure it will incur will be £33,029,000.00;***
- ***b) the aggregate income it will receive will be £11,351,465.00;***
- ***c) the net amount transferred from financial reserves will be £826,718.00;***
- ***d) the net amount of its Council Tax Requirement will be £20,850,817.00;***
- ***e) the basic amount of Council Tax will be £78.00 (Band D);***
- ***f) the precept demands on the individual Billing Authorities are:***
  - ***Bromsgrove £2,761,523.41***
  - ***Herefordshire £5,215,987.40***
  - ***Malvern Hills £2,291,066.68***
  - ***Redditch £1,961,230.14***
  - ***Worcester £2,390,105.15***
  - ***Wychavon £3,678,250.39***
  - ***Wyre Forest £2,552,653.83***

iv) the Medium Term Financial Plan (Appendix 6) be approved; and

v) the Statement of Prudential Indicators and Minimum Revenue Provision Policy (Appendix 7) be approved.

Introduction and Background

4. In February 2015 the Authority approved a Medium Term Financial Plan (MTFP), which identified a cumulative budget gap of £0.300m in 2016/17 rising to £3.346m by 2019/20.

5. This budget gap was based on a set of assumptions made before the General Election and in particular before the Comprehensive Spending Review (CSR) undertaken by the newly elected government.

6. The 2016/17 position, which becomes the budget, and future years' projections are now updated based on the latest available information.

7. 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 Provisional grant settlement had not been formally confirmed. If the final position is different to that in the provisional data then an update will be provided at the Authority meeting.

8. The Policy and Resources Committee considered draft budget proposals on 27 January 2016 based on the provisional information then available.The Committee recommended to the Fire Authority that:

    a. the 2016/17 precept increase is set at £1.50 per year at Band D; and
    b. the assumptions now laid out in paragraph 46 are accepted; and future years' planning should assume an annual precept increase of 1.96%.

Review of Available Resources

9. The latest projection of future resources can be split between formula grant, other grants, Council Tax precept and Retained Business Rates.

Formula Grant

10. As part of the 2016/17 Settlement the government has given indicative grant figures for the whole of the CSR period to 2019/20. In order to have these future allocations confirmed an Authority is required to submit some form of Efficiency Plan, although details have not yet been issued.

11. The grant figure for 2016/17 is £0.140m (1.9%) lower than expected, although by 2019/20 grant is potentially £0.045m greater than forecast.

12. Although this suggests that overall the grant position is in line with the MTFP projection, there is a significant difference in impact between the broadly equal annual reductions' forecast and the heavily front-loaded actual position.

13. The extent of this position is shown in the table below:

	2016/17	**2017/18**	**2018/19**	**2019/20**	**OVERALL**
MTFP	-11.1%	-11.5%	-12.0%	-12.6%	**-39.4%**
Settlement	-12.7%	-17.7%	-10.0%	-5.5%	**-38.9%**

14. The result of this is that there is a one off loss of resource of around £1.0m. Members will recall that at the end of 2014/15 the Authority prudently set aside £1.2m partly to guard against any adverse impact of the CSR. The Policy & Resources Committee have endorsed the Treasurer's recommendation to utilise some of this reserve to return the overall grant position to that of the previous MTFP.

15. Although the overall loss of grant of nearly 40% is higher than the 30% average for fire authorities (and results from the government cutting grant proportionate to overall expenditure), on an adjusted like for like basis this Authority has received the lowest overall impact on pre-Austerity spending levels. This was covered in detail at Policy & Resources Committee on 27th January and at the seminar for all Members on 18th January.

Other Grants

16. Members will be aware that the Authority receives grant in respect of national New Dimensions functions and the Firelink radio scheme.

17. Although the grant for the former was cut by 10% in 2015/16, there has been no communication about further, future changes, although grant has not yet been confirmed. The MTFP therefore assumes the continuation of 2015/16 levels, less the known removal of the Incident Response Unit (IRU) element.

18. The Authority is aware that the Firelink grant will be eliminated when the replacement and promised significantly cheaper national radio scheme goes live. Signing of national contracts now makes it easier to forecast the timing of the loss of this element.

Precept Assumptions

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

20. The actual level of tax-base has again risen significantly by 1.9% in 2016/17 as a result of :
    a. Improvement in the estimate of actual collection from tax-payers who had previously not paid any Council Tax.
    b. Changes to Council Tax support schemes increasing the amount of Council Tax payable.
    c. A review of (and reduction in) the granting of single person discounts.
    d. New properties.

21. This increase provides the Authority with £0.284m more income than was previously forecast, as well as a one off £0.286m surplus on the Collection Funds.

22. Although the previously approved MTFP had prudently assumed an annual 0.5% increase in the tax-base, this is the third consecutive year that the increase has exceeded 1.8% and a review of this assumption is necessary.

23. As the Treasurers of the Billing and Precepting Authorities have worked together and shared information it is considered reasonable for this Authority to assume a future annual increase averaging 1.3% based on these individual projections.

24. Although the annual net Collection Fund out-turn has ranged from a net deficit of £0.002m to a net surplus of £0.286m since 2004/05, 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. The Collection Fund is therefore assumed to be neutral in future years.

25. Although the Authority is free to increase the precept by any level it feels is appropriate, any increase above the threshold set by government (2% for 2016/17), 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.

26. Following discussion, the Policy and Resources Committee has recommended that the Authority increase the Band D tax by £1.50 (1.96%) in 2016/17 and that a planning assumption of annual increases of 1.96% thereafter be made.

27. This figure would be below the level (2.0%) that would require the Authority to conduct a referendum on the level of increase in 2016/17.

Retained Business Rates

28. Within the grant settlement the government made an initial assumption about the level of business rates to be retained by each local authority and then makes assumptions about how this will change each year.

29. Each year however, the Billing Authorities provide an estimate (the NNDR1) of the amount they believe is collectable (including any grant payable by government to compensate for some nationally determined rate reliefs) and this should give a more accurate figure of resources available.

30. There is, however, a significant difference between these figures as the following table shows:

	2013/14	**2014/15**	**2015/16**	**2016/17**
Baseline Change		1.9%	1.9%	0.8%
NNDR1 change		-1.2%	4.8%	-6.6%
NNDR1 as % of Baseline	102.8%	99.5%	102.4%	94.8%

31. The unexpected volatility (which is largely due to appeals) means that the yield in 2016/17, and later years, is significantly less than anticipated in the previous MTFP.

32. In respect of the budget for this year, the shortfall can be covered by using the remainder of the NNDR reserve (£0.045m) and the one off council tax collection fund surpluses referred to at paragraph 21.

33. For planning purposes it is assumed that the yield will rise at least as much as the government's inflation target (i.e. 2% per year), but the 2016/17 reduction means that this is a worse position than government is assuming.

34. This volatility issue is relevant to all tiers of local government and the Treasurer will continue to liaise with the Treasurers of District and County Councils to better understand the position to improve future forecasting.

35. This difference is partly due to the fact that the Billing Authorities in the Worcestershire Pool did not declare any 2013/14 deficits in their 2014/15 estimates, and these are now coming through in 2015/16.

36. It is suggested that if the forecast changes significantly, then a further updated MTFP is brought to the Policy and Resources Committee earlier than the normal cycle of finance reports.

Expenditure Requirement

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

38. There are now a number of changes in respect of these expenditure forecasts, which are outlined below.

39. Ending of the contracted out rates of Employers National Insurance. Although it was included in the current MTFP the first year is 2016/17 not 2017/18 as previously included by error. This has a £0.380m impact in 2016/17 only as it was included in future years already.

40. Fire Control equipment maintenance costs increasing by £0.090m per year as a result of the extension of the contract and increasing age of equipment. This is offset to an extent by £0.080m per year of unrelated additional income.

41. The "Apprentice levy" on employers introduced in the Chancellors Autumn Statement adds an additional annual cost of £0.070m per year from 2017/18.

42. The budget for 2015/16 contained a provision for general inflation. Once again it has not been necessary to allocate this in total as the general level of inflation remains low and budget holders continue to restrain budgets. It is therefore possible to remove this un-allocated amount from the base budget saving £0.125m per year.

43. As this is the third consecutive year that this has been possible it is now considered prudent to reduce the future inflation provision, although this reduction has been restricted to two years only. There may be additional future savings if the current reduction in oil prices is sustained in the medium term.

44. Although the Chancellor has again made clear the government's policy on public sector pay increases, i.e. a maximum of 1% per year, it is not entirely clear how this will translate to the fire sector as pay awards are negotiated independently of central government.

45. Whilst the 2015 award was held at 1%, it is considered prudent to provide above this for future years, particularly as the changes to National Insurance rates effective from April 2016 mean that net pay will drop by an average of just over 1%. Clearly if the pay award is limited to 1% the resultant savings will again flow through to reduce future budget gaps.

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

	2016/17	2017/18	2018/19	2019/20
Pay Awards	2%	2%	2%	2%
General Inflation	2%	2%	3%	3%
Long Term Borrowing Rates	4%	4%	4%	4%

47. The initial approval for the provision of Day Crewing Plus cover for the second pumps at Hereford and Worcester fire stations was for a trial period of two years ending in March 2017 and is subject to a review.

48. However, in anticipation of the Authorities probable desire to continue this arrangement (subject to finance being available), the Policy and Resources Committee have recommended that continued provision is made for this beyond 2016/17. As a consequence, the saving shown in the previous MTFP has now been removed.

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50. In addition a review of the capital financing costs has identified savings from experience of the actual progress of capital expenditure in relation to the budget.

Capital Programme

51. 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 7.

52. 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.

Excess Staff Costs

53. Following the implementation of the agreed CRMP staff reductions there will be a surplus of uniformed staff in post above that approved for the wholetime establishment.

54. As part of the MTFP the Authority approved the use of the budget reduction reserve to try to meet the Authority's desire not to instigate compulsory redundancies of uniformed staff.

55. In addition Senior Officers have identified and pursued options for staff to be temporarily seconded to neighbouring Services to reduce cost pressures.

56. Taking all these factors into account the previous MTFP forecast that £1.023m of this reserve would remain unused at the end of the MTFP period. This conincided with staff resources being back in equilibrium.

57. Since then there have been a number of changes to the profile of staff costs

    a. The estimate of net costs of seconded staff are reduced
    b. There are additional officers seconded
    c. Some seconded staff have permanently transferred to other Services
    d. Staff have left for other reasons that were not predictable

    which reduce the overall demand on this reserve to the extent that it is now expected that £1.826m will now remain.

58. In addition there have been a number of staff expressing an interest in the Voluntary Redundancy scheme. If all these are completed this would have a further significant impact on the need to use this reserve.

2016/17 Budget and Precept

59. 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 2015/16 budget to that proposed for 2016/17. Appendix 4 allocates this proposed budget to the relevant approved budget heads.

60. The net budget (after planned use of reserves) of £31.816m, with the expected resources, gives rise to a gross Council Tax requirement of £21.137m, reducing to £20.851m after Collection Fund surpluses. This gives a Band D precept of £78.00, an increase of £1.50 per year, or less than 3 pence per week. Full details of this calculation are laid out in Appendix 5.

Budget Risks

61. Setting a net budget at £31.816m still presents risks, for example:

- Pay Award – a provision of 2% has been made in 2016/17, a variance of +/- 0.5% adds or saves £0.100m.
- 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 reduce resources by around £0.212m per year.

62. In addition, following the changes in local government finance, the Authority now bears an income risk in relation to the level of income from Business Rates and the costs of Council Tax support. As yet (and particularly in respect of Retained Business Rates as explained above) there is insufficient experience of the new regime to quantify this risk with any accuracy.

Future Years : The Budget Gap 2017/18 to 2019/20

63. The MTFP approved in February 2015 identified cumulative budget gaps of £1.627m in 2017/18 rising to £3.346m by 2019/20.

64. The changes detailed in Appendices 3 and 6 including the forecast changes to resources and expenditure have resulted in the 2017/18 budget gap reducing to £0.698m and that for 2019/20 is reduced to £2.485m. Details are shown in Appendix 6.

65. Officers of the Authority have already commenced reviews necessary to identify options to close these gaps for the Authority to consider in the future.

Revenue Reserves Strategy

66. 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 6) available rather than the budget need as this will be the determinant of future budget requirements. As the level of funding is determined by the decision on Council Tax increase, both sets of details are shown, although there is no material difference between levels.

	2016/17	**2017/18**	**2018/19**	**2019/20**
	£m	**£m**	**£m**	**£m**
General Balances at 1 April	1.838	1.538	1.538	1.538
Approved Use	(0.300)			
Proposed re-phasing	0.150	0.150		
General Balances at 31 Mar	1.688	1.538	1.538	1.538
Indicative Budget Requirement	31.816	30.942	30.958	31.300
% of Budget Requirement	5.3%	5.0%	5.0%	4.9%

67. No addition to balances in 2015/16 is shown; as the Policy and Resources Committee has yet to recommend how to deploy the managed in-year underspending (£0.792m at Quarter 2). Given that the level of general balances is adequate it may choose to boost the Budget Reduction Reserve.

68. The improved overall position in 2016/17 has meant that the Policy and Resources Committee have recommended the re-phasing of the already approved use of £0.300m of balances to support expenditure in 2017/18 rather than 2016/17 as originally planned.

69. Although there is no guidance as to the exact level of balances that it is reasonable for any Authority to hold, a level of around £1.5m or 5% 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.

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

71. 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.

Investment of Surplus Funds

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

73. Given the continuing uncertainty in financial markets, the Treasurer advises that investment should continue to be focussed on security. As a consequence surplus funds continue to generate low returns which are factored into the budget.

74. 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

Prudential Code Indicators

75. 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).

76. 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.

77. 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.

78. 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).

79. 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.

80. 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.

81. The Treasurer has prepared the prudential indicators having considered the matters above, and they are set out in detail in Appendix 7.

Minimum Revenue Provision (MRP)

82. 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.

83. 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.

84. For ease of reference both the prudential indicators (paragraphs 75 to 81 above) and the proposed minimum revenue provision are set out in the "Statement of Prudential Indicators and Minimum Revenue Provision (MRP) Policy" at Appendix 7.

Business Consultation

85. 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.

Budget Calculations: Personal Assurance Statement by the Treasurer

86. 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.

87. 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

88. 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.

89. 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 2015/16 to 2016/17
Appendix 4	Revenue Budget Allocation 2016/17
Appendix 5	Council Tax Requirement Calculation 2016/17
Appendix 6	Medium Term Financial Forecasts 2017/18 to 2019/20
Appendix 7	Statement of Prudential Code Indicators and Medium Revenue Provision Policy.

Background Papers

Policy and Resources Committee 27 January 2016: Budget 2016/17 and MTFP

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