

### **13. Budget and Precept 2011/12 and Medium Term Financial Strategy**

#### **Purpose of report**

1. To determine Revenue and Capital Budgets for 2011/12 and the consequential Council Tax Precept.
  2. To approve the Prudential Indicators and to set a Minimum Revenue Provision (MRP) policy for 2011/12.
  3. To identify potential future resources and their consequential impact on future year budgets.
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#### **Recommendations**

##### ***The Treasurer recommends that the Authority:***

- ***Approve the Capital Budget and Programme as set out at Appendix 5;***
- ***Approve the Statement of Prudential Code Indicators set out in Appendix 8;***
- ***Approve the Minimum Revenue Provision (MRP) policy for 2011-12 as set out in Appendix 9;***
- ***Approve the Revenue Budget, Net Budget Requirement and consequential precept as set out in Appendix 6; and***
- ***Note the MTFs as set out in appendices 7 and 7a with differing indicative levels of council tax precept.***

#### **Background**

4. In December 2010 the FRA considered the 2011/12 budget based on the provisional grant settlement, in conjunction with the Service need. The P&R Committee considered further progress at its meeting in January 2011 and in addition, a workshop was held for all Members in that month to ensure the widest and most up-to-date information was given to Members. The budget and council tax strategy outlined in this report are based on the paper received and discussion at the P&R Committee meeting in January 2011.
5. The grant settlement for 2011/12 has been confirmed as £10.407m, a 2.4% reduction on 2010/11. This is £0.002m less than the provisional grant announced in December.
6. Although this reduction is favourable compared to the average FRA reduction of 6.7%, it comes after several years of poor settlements and represents a slowing down rather than a halting of the deterioration in grant settlements.

7. Taken over the period 2004/05 to 2011/12 average FRA grant has declined by 0.7% whilst H&W grant has fallen by 2.1%. Other non-Metropolitan neighbours have benefited from substantial grant increase over the same period.

	<b>04/05 to 10/11</b>	<b>10/11 to 11/12</b>	<b>04/05 to 11/12</b>
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%
<b>All FRA</b>	<b>5.7%</b>	<b>-6.7%</b>	<b>-0.7%</b>

8. The Authority's grant settlement continues to be well below average at 69% of all FRAs and is now the second lowest per head in England.
9. For planning purposes the Senior Management Board has been working on an assumption that the tax-base would remain static in 2011/12. The final tax-base figures are more buoyant showing a 0.6% increase and a net surplus of £0.031m on collection funds was declared. A slightly higher net surplus figure was reported verbally to the P&R Committee on 28 January, pending information from one Billing Authority.
10. In accordance with government guidance and the FRA strategy on precept increases, the proposal for no increase in the precept entitles the FRA to receive a government grant equal to 2.5% (£0.519m) of the total precept. This is deducted from the core budget requirement (see appendix 1) to arrive at the recommended Net Budget Requirement.
11. The recommended 2011/12 Net Budget Requirement is £31.195m, representing a reduction of 0.6% over the previous year and requires no increase in the Council Tax. Details are set out in Appendices 1 to 4.

### **Efficiency Gains**

12. The FRA has made significant efficiencies over the last 6 years to counter the consistently poor grant settlements and these have significantly exceeded the targets set by the previous government. Members will be aware of the details of these efficiencies, from previous FRA and Committee reports.

### **Capital Programme**

13. 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 5. The revenue consequences of the schemes, including financing costs, are included in the revenue budget projections in Appendices 1, 2 and 4, and the review of Prudential Indicators in Appendix 8.
14. In accordance with P&R Committee capital budget monitoring arrangements, the Capital Strategy provides for the proposed Major Buildings block in an illustrative and flexible way, but expenditure will only be incurred when a specific Business Case is approved by the P&R Committee.

15. In accordance with the FRA requirements a similar limitation applies to the non-routine vehicle replacements and a specific business case will be produced for the replacement Command Unit in 2013/14.

### **Capital Grant**

16. Preparation of the Capital Programme and revenue budget consequences was based on the provisional grant settlement statement that Fire Capital Grant was not to be an automatic allocation to individual FRA, but was to be the subject of a form of bidding process. However on 3rd February DCLG allocated these sums directly to FRAs and H&W FRA will now receive an additional £1.173m of capital resource.
17. As this has been notified so late in the process, proposals for using this resource will be brought to P&R Committee in the usual way.

### **Investment of Surplus Funds**

18. In accordance with the FRA Treasury Management Strategy, surplus funds are invested by, and with Worcestershire County Council.
19. Given the current situation in financial markets the Treasurer has advised that investment should primarily 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.
20. Since October 2008 the FRA has adopted a policy of avoiding new long term borrowing, where working capital balances permit. It is likely that during 2011/12 this source will be effectively exhausted and long term borrowing will again be required to fund the capital programme.
21. The FRA will only extend long term borrowing when cash-flow requirements dictate that it is necessary.

### **Budget Risks**

22. Setting a net budget requirement at **£31.195m** as referred to in paragraph 11 still presents risks, for example:
  - Pay Award – In accordance with the Chancellors stated policy on public sector pay, no provision has been made for increases in 2011/12. However, although Pay Awards are negotiated at a national level, central government is not a direct negotiating partner for local Government employees, and provision for a potential future award (averaging 2%) is made from 2012/13 onwards.
  - General Inflation – Provision for average inflation has been made at 3% (with higher increase for fuel, rates and utilities); current projections are for potentially higher levels. Each additional 1% costs £0.100m.
  - NI Rate Changes – Although the Chancellor announced that the % rise in Employer NI rates (due in April 2011) would be offset by changes in banding, it is not clear if this is entirely cost neutral for the mix of staff employed by the FRA.

- Firelink and FiReControl – Although the latter project has been cancelled, significant un-resolved legacy issues remain which officers are currently working to resolve. In the absence of clarity, the previous provision for RCC costs remains in future years' budgets, (2012/13 onwards).

23. These risks highlight the need to maintain a prudent level of revenue balances for purposes in addition to the potential operational impact.

### **Council Tax Capping**

24. In order to qualify for the 2.5% Council Tax Freeze Grant the FRA must set a budget requirement that does not increase the Band D equivalent tax above the 2010/11 level.
25. For 2011/12 any Band D increase that is above 0% but less than 2.5% would yield less net spending power for the FRA, and levels above 2.5% would probably be subject to some type of capping regime, as this is the indicative "norm" for 2011/12.
26. The proposed Localism Bill contains provisions for an Authority to hold a referendum where that Authority wishes to increase council tax by more than a central government set "norm". This will apply from 2012/13 onwards but it is not yet clear how it will apply to a standalone FRA, nor is it clear what "norm" the government will set.

### **Business Consultation**

27. 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.

### **Precept Implications**

28. Having regard to the government's grant allocation and the council tax base figures supplied by the billing authorities, the budget requirement results in a Band D council tax of £73.64, as in 2010/11. This equates roughly to a cost of 20 pence per day per Band D.

### **Medium Term Financial Strategy (MTFS)**

29. In the Spending Review the Chancellor announced a 25% real terms cut in Fire and Rescue Service grant, which was to be back loaded to the latter 2 years of the 4 year Spending Review period.
30. Although grant figures have been given for 2011/12 and 2012/13, a prediction of resources beyond is speculative. In the absence of any further information it is assumed that the balance of the overall reduction is spread evenly over the latter 2 years proportionate to grant received. (8% of grant per year in real terms).

31. Other assumptions, as below, are incorporated into the MTFS projections at Appendix 7; although it is accepted that some or all could change:
- 2012/13 onwards – no Council Tax increase
  - Pay awards averaging 2% from 2012/13
  - General inflation averaging 3% - with additional specific increase for fuel, business rates and utilities
  - Council Tax Freeze Grant remains at the 2011/12 cash level throughout – *Although government's intentions for this grant at the end of the Spending Review period are not known*
  - No increase in the tax-base above 2011/12 level
32. The resulting resource and expenditure need projections are shown in Appendix 7 and demonstrate significant future budget gaps which are summarised below:

	2012/13	2013/14	2014/15
	£m	£m	£m
Gap	1.306	3.069	4.714

33. Beyond 2011/12 the FRA will have control of Council Tax policy and may wish to use increases in future Council tax to reduce these budget gaps. The impact of a 2.5% per year increase, (which is equal to less than four pence per week for a Band D Tax-payer) as discussed by P&R Committee, is shown in Appendix 7a, and summarised as follows:

	2012/13	2013/14	2014/15
	£m	£m	£m
Raw Gap	1.306	3.069	4.714
Extra Precept	0.519	1.051	1.596
Net Gap	0.787	2.018	3.118

34. Even after increasing council tax there is still a significant budget gap to be closed. The savings required cannot be met from back office reductions alone and changes to service levels cannot be ruled out.
35. Members, officers and staff shared initial ideas on areas to seek efficiencies through the “Meeting the Challenge” workshops in 2010 and these have informed the 2011/12 IRMP Action Plan proposals and the other emerging plans to address the financial challenges ahead.

### **Revenue Balances Strategy**

36. The level of general balances 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.

37. The table below shows the projected position in relation to balances compared to the budget requirement over the MTFS 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. Details are still awaited from DCLG.
  - The budget requirement figure is based on the projection of future resources (see Appendix 7) available rather than the budget need as this will be the determinant of future budget requirements.

	<b>2010/11</b>	<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>	<b>£m</b>
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		31.195	31.339	30.687	30.075
% of Budget Requirement		3.7%	3.7%	3.8%	3.8%

38. Whilst this level of balances is desirable (see also paragraph 22 above), 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.
39. Ear-marked balances, listed below, are held for specific purposes and at the end of 2010/11 are estimated to be:

	<b>2010/11</b>
	<b>£m</b>
New Dimensions Reserve	0.756
Pensions Reserve	0.167
Training Reserve	0.083
FiReControl (RCC) New Burdens Reserve	0.158
ICP-Workwear Reserve	0.060
	<b>1.269</b>

- New Dimensions funding is given by 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 RDS Part-time Workers Tribunal Agreement.
- Training Reserve is used to phase training as required.
- FiReControl (RCC) New Burdens monies are held pending final agreement that the FRA may use these funds to deal with legacy issues following cancellation of the project.

- ICP-Workwear matches the expenditure profile and core budget provision over the contract life.
40. Following budget monitoring reports during the year, Members will be aware of the creation of an Organisational Development Reserve in 2010/11, as a result of prudent reduction in expenditure in anticipation of dealing with a significant projected budget gap in 2011/12. This Report demonstrates that the gap has now slipped by a year but still remains for future years. It is intended that this reserve will be used on an “invest to save” basis or to create capacity in the Service; to help prepare the FRA for these future reductions.
  41. The reserve was initially established at £0.300m, but continued prudence by budget holders and other managers indicates that the level at the end of the year will be nearer £0.650m. The final level will be reported following closure of the 2010/11 accounts.
  42. There is a possibility that grant £0.090m expected from the EU in respect of Floodex, may be significantly delayed or at worst not forthcoming. If the grant is not received the Organisational Development Reserve will be reduced to £0.560m.

### **Prudential Code Indicators**

43. 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).
44. 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.
45. 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.
46. 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).
47. 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.

48. 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; and
  - Practicality e.g. achievability of the forward plan.
49. The Treasurer has prepared the prudential indicators having considered the matters above and these are set out at Appendix 8.

### **Minimum Revenue Provision (MRP)**

50. 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.
51. 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.
52. Appendix 9 sets out the proposed position.

### **Budget Calculations: Personal Assurance Statement by the Treasurer**

53. 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.
54. 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 Strategy 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

55. 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.
56. 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	✓	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	✓	Refer to recommendations – FRA has statutory duty to make these decisions.

## Additional Considerations

57. 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).	✓	
<b>Strategic Policy Links</b> (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	✓	
<b>Risk Management / Health &amp; Safety</b> (e.g. risk management and control measures, risk register score).		
<b>Consultation with Representative Bodies</b>		

## **Supporting Information**

- Appendix 1: Revenue Budget 2011/12
- Appendix 2: Explanation of variations in Appendix 1
- Appendix 3: Personnel Budget
- Appendix 4: Revenue Budget Allocation 2011/12
- Appendix 5: Capital Programme
- Appendix 6: Precept Calculation 2011/12
- Appendix 7: Medium Term Financial Forecasts
- Appendix 8: Statement of Prudential Code Indicators
- Appendix 9: Minimum Revenue Provision policy 2011/12

## **Background papers:**

- Report: Financial Prospects & Future Planning – Fire and Rescue Authority –  
17 December 2010
- Report: 2011/12 Budget Preparation – FRA Policy & Resources Committee –  
28 January 2011

## **Contact Officer**

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