

## **Report of the Treasurer and the Chief Fire Officer**

### **6. Budget and Precept 2014/15 and Medium Term Financial Plan**

#### **Purpose of report**

1. To determine the Revenue and Capital Budgets and the Council Tax Requirement for 2014/15.
  2. To approve the Prudential Indicators and to set a Minimum Revenue Provision (MRP) policy for 2014/15.
  3. To identify potential future resources, their consequential impact on future year budgets and the future Council Tax Requirement.
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#### **Recommendations**

***That the Authority approve the:***

- i) Capital Budget and Programme ( Appendix 1);***
- ii) Revenue Budget (Appendices 4 and 5);***
- iii) Council Tax Requirement (Appendix 6);***
- iv) Medium Term Financial Plan (MTFP) (Appendix 7);***
- v) Statement of Prudential Indicators (Appendix 8); and***
- vi) the Minimum Revenue Provision (MRP) policy for 2014/15 (Appendix 9).***

#### **Introduction and Background**

4. In February 2013 the Authority approved a Medium Term Financial Plan (MTFP), which identified a significant cumulative budget gap of £4.1m by 2016/17. During July 2013 further information was made available by government in respect of grant reductions and Council Tax policy, which increased the cumulative gap to £4.7m.
5. This budget gap formed the financial background to the Community Risk Management Plan (CRMP) Fire Cover consultation that is considered elsewhere on this agenda.
6. 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 (P & R) 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;
  - f. Confirmed grant settlement 2014/15 – from government; and
  - g. Indicative grant settlement 2015/16 – from government.

7. Over the same period officers have identified and implemented savings toward the known budget gap, and the Authority is expecting some savings to be made from decisions that it is yet to make on the CRMP.
8. The Policy and Resources Committee considered draft budget proposals on 28 January 2014 based on the provisional information then available. The Committee recommended to the Fire Authority that:
  - a. the 2014/15 precept increase is set at 1.94% (£1.43 per year at Band D);
  - b. the inflation assumptions now laid out in paragraph 36 are accepted; and future years planning should assume a precept increase or freeze grant capped at 1% in 2015/16 and an annual 2% increase thereafter.
9. Since the Policy and Resources Committee considered the draft budget, the Retained Business Rates forecasts have been received from the billing authorities, and are significantly better than the base position. As a consequence this budget paper provides information on both the basis of a council tax increase as recommended and of a council tax freeze.
10. Where relevant, two versions of each appendix are provided, “a” for tax freeze and “b” for a precept increase.

#### **Review of Available Resources**

11. The latest projection of future resources can be split between formula grant, business rates and Council Tax precept.

#### **Formula Grant**

12. Since the new finance regime was implemented from 2013/14 there will be no re-set of proportionate distribution of grant until 2019/20 and the percentage reduction in grant for all Fire Authorities from 2013/14 is the same.
13. This baseline is set by government, from which an estimate of the Authority’s share of retained business rate (1%) is deducted to arrive at the grant figure payable. In reality the process is slightly more complicated than this as some elements of the grant are reducing at different rates, or are not payable to all Authorities, but the underlying principle applies.
14. The final grant figure is 0.3% lower in 2014/15 and 0.4% lower in 2015/16 than was expected. Although this is well within the reasonable limits of accurate forecasting, it still represents £0.028m less resource in 2014/15.
15. Estimating future reductions is much more speculative. The following year 2016/17 falls after the next General Election, although the three major parties have all acknowledged that “austerity” will continue in some form until at least 2019/20.
16. Government has given no indication of the detail of future grant reductions; therefore, in the absence of anything else, the MTFP has assumed that the percentage cut indicated for 2015/16 will apply to following years as well. It

should be noted, however, that for both 2013/14, & 2014/15 the actual grant cut has been 1% or 2% greater than was indicated 15 months earlier.

### **Retained Business Rates**

17. As stated above, the grant regime makes an assumption about the level of business rates to be retained by each local authority.
18. With no previous history of retained business rates the 2013/14 budget used this base-line position. For 2014/15 estimates of business rate yields have been provided by the billing authorities. Whilst the position varies between authorities the base position is £0.035m (1.5%) worse than expected.
19. However, with the inclusion of £0.180m Section 31 grant being paid by government to compensate for continuing rebates to some Business Ratepayers, the net yield is some £0.145m (6.2%) higher than previously forecast.
20. Future forecasting of this income stream will improve with experience and knowledge.

### **Precept Assumptions**

21. The level of income from precept is determined by the Band D tax and the total tax-base.
22. The actual level of tax-base has risen significantly by 2% in 2014/15 partly through additional properties being built, partly as some of the Billing Authorities amend their local Council Tax support schemes, and partly a release of some of the caution exercised in setting the 2013/14 tax-base in the unknown world of local Council Tax support schemes.
23. This increase provides the Authority with £0.380m more income than was previously forecast, as well as a one off £0.130m surplus on the Collection Funds.
24. It is also considered to be reasonable to reinstate the previous assumption of a 0.5% annual increase in the tax-base which was suspended for the 2013/14 – 2016/17 MTFP as a result of uncertainty over local Council Tax support schemes.
25. Although the annual net Collection Funds out-turn has ranged from a net deficit of £0.002m to a net surplus of £0.130m, 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.

### **Council Tax Freeze Grant**

26. For 2014/15 and 2015/16 the government has again offered an incentive to any Authority which freezes Council Tax. This grant would be payable in 2014/15

and in 2015/16 before being added to the base and then subject to proportionate grant reduction.

27. 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 2014/15), requires the Authority to hold a referendum on the increase. The Authority has previously concluded that a referendum is not viable given the percentage increase necessary merely to fund the cost of the referendum.
28. Following discussion the Policy & Resources(P & R) Committee has recommended that the FRA increase the Band D tax by 1.94% (£1.43 per year at Band D), and that a planning assumption of annual increases of 0% for 2015/16 and 2.0% thereafter be made.
29. For practical purposes, to ensure that the annual increase at each council tax band rounds to 1.9%, the increase has been taken at 1.93% (£1.42). This is less than 3 pence per week at Band D.
30. This figure would be below the level (2.0%) that would require the FRA to conduct a referendum on the level of increase in 2014/15. Members are reminded, however, that the Secretary of State has indicated that he believes Authorities who exercise this power that his Localism Act has given them are “dodging democracy”.

### **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. An assumption of general inflation at 2.5% has been made for the MTFP period. This should reflect the costs of items purchased by the FRA and not necessarily the level of Consumer Price Index (CPI) or Retail Price Index (RPI) inflation. The sum will be held as a provision to be allocated only when there is clear evidence of price rises. This will make it much easier to remove any over-provision from future year budgets, as has happened with the 2013/14 allocation.
33. In addition it has been thought prudent to include an additional inflation provision for two key areas of expenditure that are projected to individually increase well above the average CPI/RPI level. These areas are utilities (gas and electricity) and diesel fuel.
34. Although the Chancellor has made clear the government's policy on public sector pay increases, i.e. 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.

35. Whilst the 2013 award was held at 1%, it is considered prudent to provide above this for future years, although clearly if there is no pay award the resultant savings will flow through to reduce future budget gaps.
36. The relevant assumptions are summarised below in tabular form for ease of reference:

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
General Inflation	2.50%	2.50%	2.50%
Utilities - Gas	10.00%	5.00%	5.00%
Utilities - Electricity	7.50%	5.00%	5.00%
Diesel Fuel	7.50%	5.00%	5.00%
Business Rates	3.50%	3.00%	3.00%
Pay Awards	2.00%	2.00%	2.00%
Long Term Interest	4.00%	4.00%	4.00%

### **Capital Programme**

37. 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, 5 and 7, and the review of Prudential Indicators in Appendix 8.
38. 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 FRA's negotiation position.
39. It is possible that decisions that the Authority may take later in respect of the CRMP may have an impact on the future capital requirement for fire appliance replacement.

### **The Budget Gap 2014/15 to 2016/17**

40. The MTFP approved in February 2013 identified a cumulative budget gap of £4.1m by 2016/17, which increased to £4.7m following further grant reduction information provided by government in July and an expectation of future Council Tax freezes.
41. The approach to closing this budget gap was to identify savings away from front line response, assess the scale of prudent variables and then seek the remainder of the savings from the only avenue available, front line response. This has resulted in the following split in addressing the budget gap:
- £2.0m away from front-line response;
  - £2.0m from front-line response (CRMP-Fire Cover Review); and
  - £0.7m variables to be identified from such areas as improved tax-bases, and possible lower pay awards over the period.

42. The slightly lower than expected grant settlement (paragraph 14), has been more than offset by buoyancy in business rates (paragraphs 17-19) and a significant increase in the Council Tax base (as outlined in paragraphs 17-19).
43. In addition there have been a number of amendments to previous estimates, including a reduction of the 2015/16 pay award provision from 3% to 2%, consistent with 2014/15.
44. These changes have the effect of reducing the cumulative gap to £4.0m as detailed in Appendix 3 and summarised below:

	Fire Cover £m	Other £m	To be Identified £m	<b>TOTAL £m</b>
Original Gap	2.000	2.000	0.725	<b>4.725</b>
Grant changes			0.009	<b>0.009</b>
Tax-base growth	(0.194)		(0.387)	<b>(0.581)</b>
Business Rate growth			(0.125)	<b>(0.125)</b>
Revised Estimates	0.090	0.009	(0.146)	<b>(0.047)</b>
	1.896	2.009	0.076	<b>3.981</b>

45. Officers have continued to undertake reviews of costs and services, away from front line response, to identify the £2.0m required. This process has identified a further £1.6m of reductions to date. This is in addition to the £2.3m already achieved bringing the total to £3.9m since 2010, without any impact on front line response to the public.
46. As a consequence the budget gap before the Authority considers the CRMP, and as detailed in Appendix 3, is now reduced to:
- |   |                |
|---|----------------|
| a. Fire Cover                               | £1.896m        |
| b. Other                                    | £0.385m        |
| c. To be identified (projection variations) | £0.076m        |
| d. TOTAL                                    | <b>£2.357m</b> |
47. In order to secure the future budget base, on advice from the Chief Fire Officer and the Treasurer, the P & R Committee are recommending that the Authority increase the Band D precept by £1.43 per year (1.94%).
48. For reasons referred to in paragraph 29 above this has been amended to 1.93%, and reduces the savings that would need to be made from the CRMP Fire Cover review to £1.712m, and the overall gap to £2.173m.

### 2014/15 Budget and Precept

49. In accordance with previous practice, and to provide a continuous record of year on year budget changes, the details of movements contained in Appendix 3 and relating to 2014/15 are summarised in Appendix 4. This consolidates the variations included in the MTFP approved in February 2013 and subsequent amendments.

50. Appendix 5 allocates these amendments to the relevant approved budget heads.
51. The proposed budget is dependent on the level of council tax increase the Authority wishes to approve:
- a. If a council tax freeze is determined, the net budget of £32.482m still requires the identification of £0.191m of additional savings. With the other expected resources this gives rise to a gross Council Tax requirement of £19.089m, reducing to £18.959m after Collection Fund surpluses. This gives a Band D precept of £73.64. Full details of this calculation are laid out in Appendix 6a.
  - b. If a precept increase is approved then the net budget of £32.637 requires the identification of only £0.036m of additional savings. With the other expected resources this gives rise to a gross Council Tax requirement of £19.455m, reducing to £19.325m after Collection Fund surpluses. This gives a Band D precept of £75.06, an increase of £1.42 per year, or less than 3 pence per week. Full details of this calculation are laid out in Appendix 6b.

### **Budget Risks**

52. Setting a net budget at **£32.482m** or **£32.627m** still presents risks, for example:
- Pay Award – A provision of 2% has been made in 2014/15, a variance of +/- 0.5% adds or saves £0.090m.
  - General Inflation – Each additional 1% costs/saves £0.100m.
  - Each 1% increase in grant cuts to around £0.090m.
  - Future Council Tax Policy is also unknown, although a 2.0% increase is included in the MTFP after 2015/16 a reduction by 1.0% would reduce resources by around £0.195m.
53. In addition, following the changes in local government finance, the FRA now bears an income risk in relation to the level of income from Business Rates and the costs of Council Tax support. As yet there is insufficient experience of the new regime to quantify this risk with any accuracy.

### **Future Years**

54. The budget gap to 2016/17, as outlined in Appendix 3, is reset to show movements from the proposed 2014/15 budget and is laid out in Appendix 7.
55. Future resources are much harder to predict as the next three year period is beyond the next General Election, although all major political parties have indicated an expectation that “austerity” will continue until at least 2020.
56. Taking forward the current budget parameters:
- a. Annual 8% grant cuts
  - b. Annual 0.5% increase in the council tax base

- c. Annual 2% precept increase
- d. Annual 2% pay awards

would require further indicative savings of £3.3m - £3.4m by 2019/20.

### Investment of Surplus Funds

- 57. In accordance with the FRA Treasury Management Strategy, surplus funds are invested by Worcestershire County Council alongside their own funds.
- 58. 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.
- 59. Since October 2008 the FRA has adopted a policy of avoiding new long term borrowing, where working capital balances permit. The FRA will only extend long term borrowing when cash-flow requirements dictate that it is necessary, and only to finance long term assets

### Revenue Reserves Strategy

- 60. 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 7) 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.

#### with frozen council tax

	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
At 31st March	1.485	1.485	1.485	1.485
Net Budget (Funding)	32.549	31.709	31.294	30.963
% of Budget	4.6%	4.7%	4.7%	4.8%

#### with increased council tax

	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
At 31st March	1.485	1.485	1.485	1.485
Net Budget (Funding)	32.549	31.867	31.478	31.171
% of Budget	4.6%	4.7%	4.7%	4.8%

- 61. No addition to balances in 2013/14 is shown, as it will be recommended that the projected and managed in-year underspending of £0.5m is transferred to the Budget Reduction Reserve established in 2013/14, specifically to meet any short term phasing costs necessary to achieve the cost reductions implied from the future budget gaps outlined in Appendix 7.



62. The average level of balances now projected at around 4.6%-4.8% is marginally higher than the 4.4% - 4.6% in the previous MTFP and reflects further reductions in the level of future funding rather than a gain in balances. The underlying risk environment remains unchanged.
63. 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.

### **Prudential Code Indicators**

64. 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).
65. 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.
66. 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.
67. 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).
68. 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.
69. 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.

70. The Treasurer has prepared the prudential indicators having considered the matters above and these are set out at Appendix 8.
71. The indicator of capital financing costs as a proportion of revenue streams (i.e. future budget levels) is dependent on the decision on council tax. For this indicator, both sets of data are shown, but it can be seen that the differences are minimal and not significant.

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

72. 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.
73. 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.
74. Appendix 9 sets out the proposed position, which is a continuation of the previously approved policy.

### **Business Consultation**

75. 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.
76. In addition these groups were also consulted in relation to the CRMP Fire and Emergency Cover Review which included information on the financial background as part of the contextual setting.

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

77. 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.
78. 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 Plan 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

79. 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.
80. 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

<b>Resource Implications</b> (identify any financial, legal, property or human resources issues)	Yes – whole report
<b>Strategic Policy Links</b> (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
<b>Risk Management / Health &amp; Safety</b> (identify any risks, the proposed control measures and risk evaluation scores).	No
<b>Consultation</b> (identify any public or other consultation that has been carried out on this matter)	Yes – consultation with Business Rate-Payers as required by legislation
<b>Equalities</b> (has an Equalities Impact Assessment been completed? If not, why not?)	No

## Supporting Information

Appendix 1	Capital Programme
Appendix 2	Personnel Budget
Appendix 3	Previous MTFP Progress
Appendices 4a/4b	Revenue Budget 2014/15
Appendices 5a/5b	Initial Revenue Budget Allocation 2014/15
Appendices 6a/6b	Council Tax Requirement Calculation 2014/15
Appendices 7 a/7b	Medium Term Financial Forecasts
Appendix 8	Statement of Prudential Code Indicators
Appendix 9	Minimum Revenue Provision policy 2014/15

## **Background Papers**

Fire Authority 11-Dec-13 : Report - Financial Prospects 2014/15  
Policy and Resources Committee 28-Jan-14 : Report - Budget 2014/15 and Review of  
Medium Term Financial Plan

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