

7. Financial Prospects and Future Planning

Purpose of Report

1. To inform Members of future financial prospects.
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Recommendations

The Treasurer recommends that the current revenue expenditure and resource projections be noted.

Background

2. In February 2009 the Fire and Rescue Authority (FRA) agreed a Medium Term Financial Plan for 2010-11 to 2012-13. It was, however, approved prior to the current major uncertainty in public finances.
3. This Medium Term Financial Plan was based around the agreed assumptions of:
 - Grant as the 3-year CSR settlement for 2010/11 (up 1.25%)
 - Grant for future years frozen at 2010/11 cash levels
 - The approved precept policy of 4.9% per year increases
 - Pay awards and inflation at 2%
 - Regional Fire Control going live in 2011/12 and FireLink charges from 2010/11
4. On 27th November CLG issued provisional grant figures for 2010/11 identical to those in the 3-year settlement. Future grant is less certain. There will not be another Spending Review before the next general election, and whilst there has been much speculation about grants cuts nothing has been confirmed.
5. On 26th November Parliamentary Under-Secretary of State Barbara Follett MP said, in a written statement to the House of Commons:

"I am pleased that the average Band D council tax increase this year was 3% - the government expects to see it fall further next year while authorities protect and improve front line services.

We expect the average Band D council tax increase in England to fall to a 16 year low in 2010/11. We remain prepared to take capping action against excessive increases set by individual authorities and requiring them to re-bill for a lower council tax if necessary."
6. Specific criteria for judging excessive increases by individual authorities are unlikely to be announced until after all Council Taxes have been set. An announcement would, in usual circumstances, be made towards the end of next March; however, planning to limit the Council Tax increase to below 3% seems to be in accordance with government expectations.

7. The date of the Pre-Budget Report has been set for 9th December, which should give a more reliable view of the prospects for 2010/11 and beyond.
8. In addition, from 2011/12 there will be a new formula for distributing grant to Fire and Rescue Authorities. The outcome of this is not yet known, but the Director of Finance sits on the national group looking at these issues. Previous reviews have held out good prospects for H&WFRA, but they have not always materialised.
9. The significant areas under review are:
 - Replacing the fire risk index with 2 indexes to better reflect non-fire activity
 - Review of Area Cost Adjustment to effectively apply only to the 20% of budget not driven by fixed national pay scales – potentially releasing resources into main grant
 - Updating the actual spend data used to reflect more recent trends. (Currently it is based on pre 2004 Act activity)
10. All potential changes are however subject to Ministerial approval, and the expenditure update was proposed and rejected for the current CSR period.

Future Resources

11. Budget Committee on 26th November recommended that the following revised assumptions be used for planning purposes:
 - 2010/11 Council Tax Increase at 2.9%
 - 2011/12 and 2012/13 no Council Tax Increase
 - 2010/11 Formula Grant as per 3-year settlement (i.e. 1.25%)
 - 2011/12 Formula Grant cut by 5%
 - 2012/13 Formula Grant frozen at 2011/12 cash level.
 - For 2011/12 a new grant “Council Tax Freeze Incentive Grant” (CTFIG) equal to 2.5% precept increase (conditional on precept increase being constrained to 0%).
 - 2012/13 CTFIG frozen at 2011/12 cash level.
12. These revised assumptions give consequential resources as below:

	2009/10	2010/11	2011/12	2012/13
Band D Tax	£ 71.57	£ 73.65	£ 73.65	£ 73.65
Precept Increase		2.9%	0.0%	0.0%
	£m	£m	£m	£m
Gross Precept	19.915	20.455	20.455	20.455
Formula Grant	10.536	10.668	10.135	10.135
Council Tax Freeze Incentive Grant			0.511	0.511
Total Resources	30.451	31.123	31.101	31.101
year on year change		2.2%	-0.1%	0.0%

Future Budget Requirements

13. Since setting the MTFP it is now possible to review the assumptions made, in particular:
- Pay awards for 2010/11 at 1.25% for Uniform and 1.00% for Support Staff were significantly less than the 2.5% budgeted
 - Future pay awards were budgeted at 2% but a figure of 1% seems more prudent (and may in itself be excessive)
 - It is now expected that there will be a 0% pay offer for support staff for April 2010, but it is not clear if this will influence the employer's side in negotiations for Uniform Staff pay, and at this stage in planning it would be prudent to maintain a contingency for an Award
 - Non-pay inflation was assumed at 1%. Whilst the short term expectation for RPI/CPI inflation is low there is speculation that the medium term prospects might be for a higher level. In any case FRA inflation is not the same as RPI inflation and so the assumption has been unchanged
 - Regional Fire Control – has now slipped back a further year from 2011/12 to 2012/13. Although costs are a best estimate based on available information they are not a final known figure
 - Firelink costs will now be payable from 2011/12 (not 2010/11 per the MTFP) and there is now more clarity over the basis of costs
14. Appendix 1 shows the build of the projected budget requirements based on the revised assumptions above.
15. As a result of these revisions to Resource and Expenditure forecasts the net future savings required are significant and are summarised below:

	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m
MTFP Budget Requirement	31.123	31.975	32.315	31.539
MTFP Resources	31.123	31.101	31.101	31.101
MTFP required savings	-	0.874	1.214	0.438

16. Based on the current MTFP projections the Service will need to identify total savings of £2.5m after allowing for inflation and pay awards.

Future Planning

17. The expenditure requirement savings identified are significant, but are based on a speculative view of future funding. It is probable that the actual picture will not be known before the next General Election, but the pre-budget report on 9 December may give some direction.
18. Given the size of the gap it has the potential to have a major impact on the nature of the Service and its delivery to our communities.

19. The Service will be holding a series of in-house workshops (involving staff, Members and representative bodies) in early 2010 linked to the budget and IRMP under a “future challenges and service values theme”, followed by similar sessions with external stake-holders.
20. Arrangement for these meetings will be notified at a later date.

Supporting Information

Appendix 1: Revised Medium Term Financial Forecasts – December 2009

Background Papers

None

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