

Report of the Treasurer

5. Budget 2015/16 and Review of the Medium Term Financial Plan (MTFP)

Purpose of Report

1. To review the current position in relation to budgets for 2015/16 and beyond, and to make recommendations to the Fire Authority (FRA).
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Recommendations

The Chief Fire Officer and Treasurer recommend that the Committee:

- *recommends to the FRA to increase council tax by £1.44 per year (1.94%) for 2015/16;*
- *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 2015/16;*
- *recommends to the FRA the precept policy for the Medium Term Financial Plan (MTFP) period; and*
- *notes the consequential future budget gaps arising.*

Background

2. In February 2014 the FRA agreed a MTFP for 2014/15 to 2016/17 (with an indicative forecast to 2019/20), which identified annual cumulative savings of £0.999m and £2.137m for 2015/16 and 2016/17 respectively. In September 2014 the FRA agreed details of Fire Cover changes to be included in the Community Risk Management Plan (CRMP), which, as anticipated, had a significant impact on these budget gaps.
3. The November 2014 meeting of this Committee and the December 2014 meeting of the FRA considered these changes along with estimates of the potential effect of other changes. This report updates these estimates with the latest available (but not yet final) information.
4. Provisional information has now been received to finalise some of the figures in the resourcing side of the budget equation, specifically:
 - i. share of government grant totals;
 - ii. special grants; and
 - iii. government estimates of business rate yield.

5. Final Information on the following is expected towards mid/end of January (and may be available for a verbal update to the Committee on 27 January 2015):
 - i. final council tax-base - from billing authorities;
 - ii. estimate of business rate income - from billing authorities; and
 - iii. 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 continued period of significant financial constraint, 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 year 2016/17 is beyond the current (extended) Comprehensive Spending Review (CSR) period and after a general election, although it is expected that the general direction of funding will be unaffected.
8. The assumptions for future years (2017/18 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.

Review of Available Resources

9. The review of future resources can be split between “base-line” (i.e. grant and business rates retention) and precept.

Base-line and Formula Grant

10. As Members will be aware, the government implemented significant changes in local government finance from April 2013.
11. Government now calculates a base-line figure and an estimate of our business rate yield (1% of the rates collected in Herefordshire and Worcestershire). The difference is paid as various elements of revenue support grant.
12. The current MTFP assumptions for 2015/16 are based on the indicative figures given by government in December 2013, and for 2016/17 are based on a continuation of the grant reduction trend seen over the last 3 years.
13. In late December the provisional figures for 2015/16 were announced, but there was no corresponding indicative figure for 2016/17, therefore 2016/17 projections have been proportionately adjusted.
14. It is unfortunate that in spite of meetings with the Fire Minister (including with local MPs) the provisional settlement is fundamentally unchanged.
15. Indicative base-line figures are 0.6% lower in 2015/16, resulting in a grant figure that is also 0.6% lower. Although this is within the reasonable limits of accurate forecasting, it still represents £0.047m less resource than expected.

16. Of this reduction, a proportion relates to the government's estimate of savings to be made in FRA pension contributions as a result of the pensions reforms commencing in April 2015. Details of the exact contribution rates and the impact on this Authority are still awaited (*see Paragraph 37(ii) below*), but an initial estimate suggests savings of around £0.030m.
17. Additionally the government's estimate of the amount of 2015/16 freeze grant payable has increased by £0.008m, so the net effect of the grant settlement is less than 0.1%.
18. Finally there has been reductions in Special Grant in respect of USAR (as previously highlighted), and the transfer of an IRU vehicle to Gloucestershire.
19. The expected reduction in Firelink grant is now unlikely before 2017/18.

Retained Business Rates

20. The Fire Authority now retains 1% of the Business Rates collected in the two counties, and there are two sources of estimated yield information:
 - i. Government's baseline assessment – available now.
 - ii. Estimates provided by the Billing Authorities (known as NNDR1), which will be provided at the end of January.
21. The Billing Authorities' estimation is complicated by two further factors:
 - i. The necessity to make provision for backdated Appeals going back 5 years before the introduction of the retention scheme.
 - ii. The late introduction by government of rate relief which reduced the amount of rate collectable, but which resulted in additional special grant being paid to Authorities.
22. In the first year of the arrangements (2013/14) NNDR1 data was not passed to the FRA in time for the budget setting process and therefore the budget was set based on the baseline estimate. Subsequently, however, it was identified that the NNDR1 estimates were 3% higher.
23. For 2014/15 the baseline figure rose by 2.0%, but the NNDR1 estimate (including the special grants to offset the additional reliefs) rose by 6.5%, and this additional funding was taken into the base in 2014/15.
24. The MTFP assumed an increase of 2.5% for 2015/16, in line with the indicative baseline change. The latter has now reduced to 1.9% and the estimate is currently amended accordingly.
25. Although there is close liaison with the Billing Authorities (and the County Council) on this matter, it is not yet clear what the NNDR1 estimates for 2015/16 will be.
26. It is possible that there may have to be some downward adjustment in this figure when final information is available.

Precept

27. In approving the current MTFP in February 2014 the FRA recommended precept increase assumptions of 0% for 2015/16 and 2% per year thereafter.
28. In respect of the tax-base an annual overall increase of 0.5% has been assumed based on the long term average.
29. Final tax-base figures are not yet available from billing authorities, but indicative data suggests that for the second year running there will be a significant overall increase of around 1.5% (2.0% in 2014/15) compared to an average of 0.7%, with a maximum of 0.9% for the previous 8 years.
30. This increase will come from 4 main sources:
 - i. Improvement in the estimate of actual collection from tax-payers who had previously not paid any council tax.
 - ii. Changes to council tax benefit schemes increasing the amount of council tax payable.
 - iii. A review of (and reduction in) the granting of Single person discounts.
 - iv. New properties.
31. The net effect of this is to increase the council tax yield by around £0.200m, and may result in one-off collection fund surpluses.
32. Whilst the MTFP assumes a 0% precept increase, the FRA could choose to increase council tax in 2015/16 (to meet expenditure pressures in year and to secure future years funding) up to the referendum threshold.
33. To assist local authority financial planning for 2015/16 this limit has now been given early and will be 2%.
34. An increase just below the threshold would increase net resources by around £0.160m, after the loss of the assumed freeze grant.
35. For information, Worcestershire County Council is proposing an increase at this level and the West Mercia Police and Crime Commissioner is consulting on such an increase.

Expenditure Requirement

36. The MTFP identified budget gaps of £0.999m and £2.137m for 2015/16 and 2016/17 (*see Appendix 1: Line 3*), reducing to £0.200m and £ 0.443m after the CRMP decisions (*see Appendix 1: Line 9*).
37. There are now further forecast changes in respect of:
 - i. 2014 Pay Awards
 - ii. The implementation of the Property JPV, including one-off set up costs

- iii. Potential reduction in employers pension contributions (*see paragraph 16 above*). Although the grant settlement makes an assumption about a small net saving, the reality of the impact on each FRA will only be apparent when the new rates for the 3 schemes are announced. The impact being dependent on how the local mix of membership compares to the national picture. The new rates are not expected until late February. For the moment a nil impact is assumed

38. These have the impact of reducing the gaps to £0.120m and £0.237m respectively as detailed In Appendix 1 Line 22 and summarised below:

	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
<u>MTFP Budget Gap (Feb 2014)</u>					
Savings to 2016/17	0.999	2.137	2.137	2.137	2.137
Savings 2017/18 on			1.446	2.380	3.322
	0.999	2.137	3.583	4.517	5.459
CRMP as approved	-0.799	-1.694	-1.694	-1.694	-1.694
Provision for DCP trial	0.164	0.164			
	0.364	0.607	1.889	2.823	3.765
2014 Pay Award Savings	-0.200	-0.200	-0.200	-0.200	-0.200
JPV Impact	0.114	-0.025	-0.063	-0.095	-0.156
	0.278	0.382	1.626	2.528	3.409
Net Grant Changes	0.039	0.053	0.066	0.079	0.091
Special Grant Reductions	0.150	0.150	0.150	0.150	0.150
Business Rate assumptions	0.017	0.020	0.023	0.026	0.029
tax-base increases	-0.200	-0.204	-0.208	-0.212	-0.216
	0.284	0.401	1.657	2.571	3.463

39. A precept increase of just under 2% would largely close the 2015/16 gap.
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 2.5% figure for general inflation has been used.
42. 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 above the average Consumer Price Index (CPI)/Retail Price Index (RPI) level. These areas are utilities (gas and electricity) and diesel fuel.
43. Although the Chancellor has made the government's policy on public sector pay increases for the CSR period very clear 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.

44. It has been considered prudent to provide a higher figure of 2% to reflect that after two years of pay freeze and three years at 1% there may be pressure for a significantly higher award.
45. The relevant assumptions are summarised below for ease of reference. (The diesel fuel provision represents around £0.014m, and although in the last few months local prices have fallen by around 11% representing a potential £0.030m saving the long term position is not certain):

General Inflation	2.50%
Utilities - Gas	5.00%
Utilities - Electricity	5.00%
Diesel Fuel	5.00%
Pay Awards	2.00%
Long Term Interest	4.00%

Other Issues

46. Following the implementation of the CRMP reductions there will be a surplus of uniformed staff in post above that required for the approved level of fire cover, until normal retirement within the next few years.
47. The FRA has already approved the use of £0.800m of reserves (including £0.300m from general balances) to provide a higher level of fire cover as often as possible for a two year period, which absorbs some of the excess cost.
48. In anticipation of the need to reduce staff numbers significantly to meet the known budget pressures, and to try to meet the Authority's desire not to instigate redundancies of uniformed staff, Members will be aware that a budget reduction reserve has been created over the last few years to meet this potential costs.
49. At 31st March 2014 the budget reduction reserve stood at £2.511m and with the addition of the previously reported planned under-spending in 2014/15 of £0.705m brings the total available up to £3.216m.
50. In addition Senior Officers have identified and pursued options for staff to be temporarily seconded to neighbouring services to reduce cost pressures. With the active co-operation of the Authority's staff this is forecast to deliver £1.8m net saving for the period 2014/15 – 2016/17.
51. The table below shows that, taking into account all these factors, it is possible to meet the costs of excess staff in accordance with the Authority's wishes by utilising £2.193m of the budget reduction reserve, leaving £1.023m available for future needs.

	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
Current Gap	0.284	0.401	1.657	2.571	3.463
Excess Staff Employment Cost	0.603	1.332	1.101	0.626	0.111
Net Secondment Income	-1.273	-0.007	0.000	0.000	0.000
	-0.386	1.726	2.758	3.197	3.574
Use of budget Reduction Reserve	0.670	-1.025	-1.101	-0.626	-0.111
Use of General Balances		-0.300			
Remaining Gap	0.284	0.401	1.657	2.571	3.463

52. Although the budget gaps for 2017/18 and beyond are, by definition, speculative, all major political parties see public sector austerity continuing to the end of the decade, so the FRA needs to consider how it would meet future savings requirements of this magnitude.
53. There is potential for savings, whilst continuing to protect front-line services, to come from the current transformational funding projects and Project Arrow and spinoffs, but it is prudent to hold a balance in the budget reduction reserve to meet any short term transitional costs.

General Balances

54. As indicated at paragraph 49, it has been assumed that planned and controlled under-spending for 2014/15 will transfer to the budget reduction reserve, so there will be no transfer to general balances in 2014/15.
55. 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.

	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
General Balances at 1 April	1.838	1.838	1.538	1.538	1.538
Approved Use		(0.300)			
General Balances at 31 Mar	1.838	1.538	1.538	1.538	1.538
Indicative Budget Requirement	32.023	31.650	31.355	31.141	30.997
% of Budget Requirement	5.7%	4.9%	4.9%	4.9%	5.0%

56. Allowing for the planned use in 2016/17 this is broadly in line with the previous MTFP.
57. 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 yield, and so is more directly connected to local economic conditions.

58. 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

59. Officers will continue to refine the budget figures and will receive final tax-base, collection fund figures and estimated business rate income.
60. The FRA will meet on 18 February 2015 to agree a budget and precept for 2015/16.

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 – whole report
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)	No
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	n/a

Supporting Information

Appendix 1: MTFP Review

Background Papers

FRA 19 February 2014: Budget and Precept 2014/15 and MTFP
P&R Committee 19 November 2014: Revision to MTFP
FRA 10 December 2014: Revision to MTFP

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