

8. Future Financial Prospects

Purpose of Report

1. To inform the Authority of the initial review of future financial prospects.

Recommendation

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

Background

2. In February 2011 the Fire and Rescue Authority (FRA) agreed a Medium Term Financial Plan (MTFP) for 2010-11 to 2013-14, which is attached at Appendix 1.
3. Since approval, more information is available in respect of cost projections, and some information in respect of future grants, and it is appropriate to revisit the MTFP at this point.
4. A similar paper was considered in detail by the Policy and Resources Committee on 23 November 2011.

Initial Review of Expenditure and Resources

5. Appendix 2 shows the known changes to the forecast budget requirement; although at this stage there has been no amendment to the assumptions on pay or other inflation rates.
6. The changes to the projection relate to :
 - An additional public holiday for the Diamond Jubilee.
 - Full costs of the settlement of the RDS part-time workers discrimination claim.
 - Removal of the FiReControl legacy costs and replacement with lower costs of the Control Resilience project.
 - Inclusion of Firelink grant to the end of the CSR period.
7. The impact of these changes on the forecast expenditure requirement is summarised in the table below:

| | 2012/13 | 2013/14 | 2014/15 |
|------------------|---------|---------|---------|
| | £m | £m | £m |
| MTFP Forecast | 32.645 | 33.756 | 34.789 |
| net changes | (0.407) | (0.491) | (0.476) |
| Revised Forecast | 32.238 | 33.265 | 34.313 |

8. When the MTFP was compiled DCLG had given no information on the grant allocations for 2013/14 or 2014/15, other than that the grant cuts were back-loaded. In the absence of any other information it was assumed that this meant an annual reduction of 6.2% in each year.
9. At the recent CFA Conference Neil O'Connor; Director of Fire, Resilience and Emergencies, DCLG stated that there would be no announcement on individual grant allocations for 2013/14 and 2014/15 until Autumn 2012.
10. Although there is no information on grant allocation to individual authorities, DCLG have now released the grant control totals for the latter 2 years and the year on year reductions are 8.5% and 5% respectively.
11. The impact of this has been factored into the revised MTFP and although there is a significant impact on the 2013/14 position the compounding effect of the cut means that the 2014/15 effect is less so. The table below summarises the change in resource:

| | 2012/13 | 2013/14 | 2014/15 |
|------------------|----------------|----------------|----------------|
| | £m | £m | £m |
| MTFP Resource | (32.055) | (32.144) | (32.298) |
| net changes | | 0.248 | 0.120 |
| Revised Resource | (32.055) | (31.896) | (32.178) |

12. The impact of the change in expenditure requirement and the assessment of resource availability is to change the projected budget gap. The overall effect is shown below:

| | 2012/13 | 2013/14 | 2014/15 |
|--------------------|----------------|----------------|----------------|
| | £m | £m | £m |
| MTFP Budget Gap | 0.590 | 1.612 | 2.491 |
| net changes | (0.407) | (0.243) | (0.356) |
| Revised Budget Gap | 0.183 | 1.369 | 2.135 |

13. Detailed work on these requirements will continue in the light of any new information that is received.

Council Tax Freeze

14. On 14 November DCLG announced details of a further Council Tax Freeze grant for 2011/12 where, in return for setting a 0% precept increase the FRA could receive a grant equal to 3% of the 2011/12 precept yield, a figure of £0.627m
15. There are 2 potential issues if the Authority were to take the freeze grant:
 - The FRA approved a planning assumption of an annual 3.5% increase over the Comprehensive Spending Review (CSR) period, and the freeze grant is set at 3.0% – this would lead to a shortfall in resources of £0.087m in 2012/13.

- Unlike the 2011/12 grant, the 2012/13 grant will be for one year only, and will have to be made up by significantly greater cuts in expenditure from 2013/14 or larger future precept increases.
16. Appendix 3 shows the impact of taking the grant in 2013/14 and maintaining the current MTFP precept increase assumptions thereafter. It means that there is a slightly bigger budget gap in 2012/13, but, more importantly, the budget gap in 2013/14 and 2014/15 increases by over £0.740m.
 17. This would have a significant effect on services as the overall budget gap is bigger and experienced earlier than currently expected.
 18. Appendix 4 shows that if the grant loss in 2013/14 were to be made good by increasing the precept further it would require a headline increase figure of over 7% in that year. This level of increase is unlikely to be sustainable.
 19. Members will need to carefully consider the longer term implications of accepting or declining the new council tax freeze grant, when considering the budget and precept at the February FRA meeting. However, Members are reminded that they are not being asked to make a decision at this moment.

Council Tax Capping

20. New “capping” arrangements are contained in the recent Localism Act, and in broad terms:
 - Require the government to set a “reasonable” level of council tax increase
 - Require Local Authorities wishing to set an increase greater than this to hold a local referendum to approve the increase
21. It was intended that the timetable will allow this process to take place before the deadline for setting council tax, thus avoiding the potential costs of re-billing. However, the “reasonable” level of increase does not have to be announced until Parliament approves the Local Government grant settlement, usually in early January.
22. It has now been confirmed that the FRA will be included in the provisions of the referendum requirement, although the government may set a de-minimus cash limit on the value of the excess increase to avoid the referendum costs being disproportionate to the increased council tax.
23. To put this into context:
 - DCLG estimate the cost of a referendum for a Billing Authority as being £0.090m-£0.300m but recognise that the cost to a precepting Authority would be higher.
 - If the FRA were to set a precept increase that exceeded the “reasonable” figure by 1% this would add only 74 pence to the annual total council tax bill but would raise an additional £0.208m.
 - If an FRA referendum cost say £0.250m this would need a precept rise of 1.2% just to pay for the referendum.

Future Progress

24. Officers will continue to refine the budget figures and reflect any more detail about the council tax freeze grant or capping policy that emerges.
25. There are further planned meetings as follows:
- 18 January 2012 (12.30) : Seminar for all Members
 - 25 January 2012 (10.30) : P&R Committee – to make final budget and precept recommendations to the FRA
 - 15 February 2012 (10.30) : Full FRA meeting - at which the budget and precept must be set

Financial Considerations

| Consideration | Yes/No | Reference in Report i.e. paragraph no. |
|---|--------|---|
| There are financial issues that require consideration | Yes | 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 | No | |

Additional Considerations

26. 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. |
|--|--------|---|
| Resources (e.g. Assets, ICT, Human Resources, Training & Development, Sustainability). | Y | Whole report |
| Strategic Policy Links (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact). | Y | Whole report |
| Risk Management / Health & Safety (e.g. risk management and control measures, risk register score). | N | |
| Consultation with Representative Bodies | N | |

Supporting Information

Appendix 1: Approved MTFP

Appendix 2: Revisions to MTFP

Appendix 3: 2012/13 Council Tax Freeze Grant Option 1

Appendix 4: 2012/13 Council Tax Freeze Grant Option 2

Background Papers

None

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