

Report of the Treasurer

Budget 2018/19 and Medium Term Financial Plan (MTFP)

Purpose of Report

1. To review the current position in relation to budgets for 2018/19 and beyond, and to make recommendations to the Fire Authority.
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Recommendations

It is recommended that the Committee:

- (i) recommend that the Fire Authority agrees the amendments to expenditure and resource projections as set out in Appendices 2 to 4;*
- (ii) recommends that the Authority increases the Band D Precept by £2.37 (2.98%) in 2018/19;*
- (iii) recommends that the Authority plans to increase precept by 3% in 2019/20 and 1.96% per year thereafter;*
- (iv) recommends that the Authority approves a planning assumption of annual pay awards of 2%;*
- (v) recommends that the Authority continues to approve the Reserves Strategy to smooth the implementation of efficiencies over the period; and*
- (vi) authorises the Treasurer to make appropriate adjustments to the phasing of the use of reserves to accommodate the confirmed council tax-base, council tax collection fund, Business Rate yield and Section 31 Grant figures.*

Background

2. In November 2017 the Committee considered an interim revision to the MTFP for 2018/19 to 2021/22, pending receipt of full funding information from government and billing authorities.
3. In the absence of any further information, the Fire Authority considered the same report in December 2017 and made no changes.
4. On 8th January 2018 Group Leaders considered the options around precept increases and whilst not a decision-making body has made recommendations to the Committee to consider.
5. Most, but not yet all, of the missing funding data has been received, and there is more information available regarding the expenditure assumptions, and this has been incorporated into this revision.

The position so far

6. The MTFP had significant budget gaps over the period, but there are major efficiencies which would be brought to fruition within the period to close the underlying base budget gap. Prudential use of reserves, that had been built up to manage the transition, are used to avoid unnecessary budget reductions over the period.
7. Appendix 1 sets out the Interim MTFP position, in a consolidated format and shows that after the use of reserves, in accordance with the approved strategy, there was a balanced budget through to 2020/21 with a gap of £0.947m in 2021/22.
8. Appendix 2 sets out the revised position, in the same format and Appendix 3 provides an indicative position for the following two years. However, reference to Appendix 4 will show the changes to the projections and these are referred to in more detail below.

Expenditure Variations

9. There has been a revision to the calculation of the current pay award provision, where previously the full year effect of the 2017 awards had been double counted (Appendix 4 Line 3).
10. Given that the Local Government Employers have just agreed a 2-year 2% settlement for Support Staff, general discussion about the future of public sector pay increases and discussion at the last Committee, it is now considered prudent to make provision for a 2% award across the whole MTFP period. (Appendix 4 Line 4). The actual awards remain subject to national level negotiations.
11. There has been a revision to the estimated saving from better co-ordination of the Fire Control Centres for Hereford & Worcester and Shropshire & Wrekin Fire Service. (Appendix 4 Line 5)
12. The Interim MTFP made provision for the costs of property maintenance arising from the comprehensive review that had just been completed, and a total provision of £1.136m was made. Full plans now only require investment of £0.872m over the period. (Appendix 4 Line 6).
13. There is a consequential adjustment to the use of the Property Maintenance Earmarked Reserve. (Appendix 4 Line 7).

Resources

14. The provisional grant position to 2019/20 has now been given and shows a small reduction in Business Rate top up grant. (Appendix 4 Line 9). The figures should be formally confirmed in late January.

15. As previously indicated the position thereafter is much less clear. As government is reviewing public spending and consulting on:
- i. the relative size of the fire share
 - ii. the distribution of the fire share between Authorities
- Either of which could have significant impact on this Authority's financial position.

To add to the uncertainty it is not clear now if the proposed introduction of full rates retention will be implemented, due to other pressures on legislative time, and it is still not determined whether Fire will be part of the arrangement anyway.

16. The legislative timetable has now prevented the promised implementation of 100% business rate retention, but Government is now consulting on a proposal for 75% retention using existing legislation, effective from 2020/21.
17. Whilst government have still not determined whether Fire will continue to be part of the rates retention scheme now it is at 75% rather than 100%, the projections have been made on the assumption of continued involvement.
18. In the absence of any detail the following assumptions have been made:
- i. Revenue Support Grant (RSG) ceases in total from 2020/21.
 - ii. The Fire Authority retains 1.5% of the locally collected Business Rates (*based on the principal that it keeps 1% under the current 50% retention regime*).
19. As the previous assumptions about grant reduction were very prudent and RSG for this authority is very low, the impact is one of timing with £0.186m less net resource in 2020/21, but £0.394m greater in 2021/22 onwards. (Appendix 4 Lines 10).
20. It should be noted that the relative levels of Business Rate yield and RSG in some Fire Authorities mean that there would inevitably have to be some form of resource redistribution.
21. Other Authorities have been more optimistic about future funding and if this Authority were to adopt those assumptions there could be £0.500m - £0.600m in available resources in 2020/21 and 2021/22. The Treasurer does not believe this is a prudent planning assumption.
22. The existing MTFP makes provision for the loss of grant in support of the Firelink radio scheme as the Authority moves to the new national Emergency Services Mobile Communications Project (ESMCP scheme). This project now faces significant (1 to 2 years) delay, but government will not give any clarity about continued Firelink funding. Any clarity is not anticipated before the Budget setting meeting, so it is considered prudent to retain the existing assumption.
23. Billing Authorities have now provided tax-base information for 2018/19 and show a net increase of 1.32% against the 1.40% in the MTFP. This compares to an average annual increase of 1.9% for the last 4 years. These figures remain to be formally confirmed.

24. This has a marginal (£0.016m) detrimental impact on the 2018/19 budget which is more than offset by the, one off, Collection Fund surpluses of £0.151m (Appendix 4 Line 12). Again these estimates require formal confirmation and currently omit figures for one Billing Authority.
25. More significantly, however the net projected increases for future years have been revised downwards from 1.25% to 1.00%. This has a major impact on future resources such that by 2021/22 resources are £0.256m less than in the existing MTFP (Appendix 4 Line 11)
26. At the time of writing information was still awaited from Billing Authorities in respect of Business Rates. To date there has been no indicative information on how these items may change.
27. Within the grant settlement data there is an estimate of the Section 31 grant payable, which shows an increase over 2017/18. This is however a government estimate of the information that the Billing Authorities must provide in due course. Given the volatility and uncertainty regarding Business Rate Yield it was considered prudent not to include this increase until the fuller picture is known.

Overall Position

28. Bringing all these factors into account, and re-profiling the agreed use of reserves, results in a balanced budget for 2018/19 & 2019/20 with a small gap of £0.124m in 2020/21 rising to £1.458m in 2021/22, (Appendix 2 Line 36).
29. Indicative projections for 2022/23 and 2023/24 show this marginally reducing to £1.308m and £1.146m largely as a result of growth in the council tax-base. (Appendix 3 Line 14).
30. As a consequence it is estimated that the Authority will need to identify further on-going annual savings of around £1.2m by 2022/23.

Council Tax Limitation

31. Members will be aware that government now controls the level of council tax increase by setting a level above which, any increase requires approval by referendum before it is legitimate. The cost of holding a referendum must be borne by the Authority and is prohibitive in relation to the likely increases.
32. The previous limit had been set at 2% and this form the basis of the MTFP assumptions. However, government has now set the limit for 2018/19 and 2019/20 at 3%.
33. If the Authority were minded increasing Council Tax to the maximum permitted, and allowing for the appropriate re-alignment of the use of reserves, it would result in a balanced budget for 2021/22 and an approximate gap of £0.700m for later years.
34. Discussions at Group Leaders meeting on 8th January gave support to the proposal to increase the precept by the maximum amount permitted.

35. The detail impact of this proposal is shown in Appendix 4 Line 21, but reduces the potential savings target to £0.600m by 2022/23.(see paragraph 30 above)

Reserves Strategy

36. Reserves are held for a number of reasons including the funding of planned operational equipment purchases and the smoothing of the budget gap. Appendix 5 summarises the planned use of reserves in accordance with the approved strategy.
37. The current MTFP assumption of using £0.300m of General Balances in 2018/19 remains, leaving the core balance at £1.538m as agreed.
38. 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.

Fleet Strategy

39. The revenue budget includes the revenue impact of the approved Property and Vehicle Strategies. In accordance with the latter it was requested that information about the quantities and types of vehicles to be purchased is brought to this Committee. To avoid the need for an additional report this is included here as Appendix 6.

Future Progress

40. The following information is still required to complete the revision of the Budget and MTFP
- i. Confirmation of government grant
 - ii. Confirmation of Council Tax-base and Collection Funds
 - iii. Provision of Business Rate information (including related Section 31 Grant)
- It is unlikely that this will impact on the strategy and principles of the budget and MTFP, but is possible that there will be an impact on the timing of the future budget gap.
41. As this information may not be fully confirmed until after the date of the Committee, the Treasurer seeks authority to make the relevant changes to the data for presentation to the Authority in February.
42. The Fire Authority will meet on 14 February 2018 to agree a budget and precept for 2018/19.

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: Interim Medium Term Financial Forecasts 2018/19 to 2021/22 (Nov 2017)

Appendix 2: Revised Medium Term Financial Plan 2018/19 to 2021/22

Appendix 3: Indicative Medium Term Financial Plan 2022/23 & 2023/24

Appendix 4: Changes from Interim to Revised MTFP

Appendix 5: Summary Reserves Strategy

Appendix 6: Proposed Fleet Procurements

Background Papers

Policy & Resources Committee 22 November 2017: MTFP Update

Fire Authority 15 February 2017: Budget and Precept 2017/18 and MTFP

Contact Officer

Martin Reohorn, Treasurer

(01905 368205)

Email: mreohorn@hwfire.org.uk