Hereford & Worcester Fire Authority
Policy and Resources Committee
25 January 2017

Report of the Treasurer

Budget 2017/18 and Medium Term Financial Plan (MTFP)

Purpose of Report

1. To review the current position in relation to budgets for 2017/18 and beyond, and to make recommendations to the Fire Authority.

Recommendations

It is recommended that the Committee:

- ***recommend that the Fire Authority agrees the amendments to expenditure and resource projections as set out in Appendices 1 and 2;***
- ***recommend that the Fire Authority increases council tax by £1.53 per year (1.96%) for 2017/18);***
- ***notes the remaining budget gaps set out in Paragraph 49; and***
- ***recommend that the Fire Authority earmarks up to £2.6m of reserves to smooth the implementation of efficiencies over the period to 2020/21.***

Background

2. In December 2016 the Fire Authority agreed a revised MTFP for 2016/17 to 2019/20 which identified annual cumulative savings of £1.657m by 2019/20.

3. This budget gap was based on revision of the estimates used in the February 2016 MTFP, and in particular brought pay award assumptions into line with government projections.

4. The position can be summarised as below:

	2017/18	**2018/19**	**2019/20**
	£m	£m	£m
Funding	(31.172)	(31.025)	(31.388)
Core Budget	31.763	32.191	33.045
	0.591	**1.166**	**1.657**
Excess Staff	1.037	0.589	0.096
Use of Budget Reduction Reserve	(1.037)	(0.589)	(0.096)
	0.591	**1.166**	**1.657**
from CSR Phasing Reserve	(0.574)	(0.386)	
from General Balances		(0.300)	
from NNDR Reserve	(0.045)		
Net Gap/(Surplus)	**(0.028)**	**0.480**	**1.657**

5. Information has now been received to finalise some of the figures in the budget equation, but other key figures are still awaited. The following sections outline what is currently known.

Review of Available Resources (Funding)

6. The review of future resources can be split between grant, council tax precept and retained business rates. The detailed figures are shown in Appendix 1.

Formula Grant

7. When setting the 2016/17 grant allocations, government gave a commitment that the indicative allocations for future years to 2019/20 would be confirmed for every Authority that submitted an acceptable Efficiency Plan. This was intended to place those Authorities in a better grant position than those that declined to submit a plan.

8. The Home Office has accepted the Efficiency Plan submitted by this Authority (without any required amendment) and in principle the previous indicative grant allocations have been confirmed.

9. There is however a technical adjustment in relation to the Business Rate revaluation at 1st April 2017.

10. In deriving the overall grant figure, government calculates a base-line figure including an estimate of our retained business rates. It then pays the difference between the two figures as grant.

11. The actual estimate of Business Rate income comes from the Billing Authorities and in 2016/17 was 95% of the base-line.

12. In the revised 2017/18 data the Business Rate baseline reduces by 10% with a corresponding increase in grant payable.

13. It is not yet clear if the full 10% reduction in base-line will be reflected in the actual Business Rate Yield. (See below).

14. Members will be aware that this government has committed to reform local government financing by the end of this parliament (2020/21 onwards) such that government grant is replaced by 100% retention of business rates.

15. There are clearly a number of distributional to be considered, as by 2019/20 this Authority will receive £5.4m in formula grants compared to £2.1m of additional business rates if it is permitted to keep the 1% currently paid over to government.

16. At a national level for standalone fire authorities (i.e. excluding county fire authorities), this gap is £270m.

Precept

17. In approving the current MTFP in December 2016 the Fire Authority re-confirmed the planning assumption of annual Band D increases of 1.96%. This is within the 2017/18 referendum limit.

18. It is interesting to note that the government's own "spending power" projections now assume rises of 2% rather than the 1.75% previously used.

19. The tax-base assumption was based on forecasts from the Billing Authorities and identified an overall increase of 1.4% for 2017/18.

20. To date, final tax-base figures have only been received from 2 of the 7 Billing Authorities, but sufficient information is available from the other 5 to initially estimate the tax-base increase as 1.55%. This marginally increases resources by around £0.040m.

21. Information on future forecasts suggests that there will not be a significant increase in tax-base above the current MTFP projections.

22. It is likely that there will be another significant one-off collection fund surplus, but again full details have only been provided by 2 of the Billing Authorities, but there is sufficient information to estimate this at £0.235m.

23. Final tax-base and Collection Fund surplus data is expected by mid-January and a verbal update will be given at the Committee meeting.

Retained Business Rates

24. 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.

25. The 2016/17 budget is based on the NNDR1 data and the MTFP assumes that this will rise in line with the expected increase in the NNDR rate.

26. Within the current MTFP the NNDR1 figure is running below the government's base-line estimate to the extent that it is only 95% of that figure, i.e. some £0.120m lower.

27. As mentioned above, the settlement figure has recalculated the base-line to take account of the Business Rate Tax-base revaluation with effect from 1st April 2017. This has reduced the base-line figure by around 10%.

28. As no information has yet been provided by the Billing Authorities it is not clear whether:

i. the base-line re-setting is a "catching up" of the actual position and that the actual yield will remain consistent or;
ii. there will be a proportionate reduction in the yield to broadly maintain the 95% of base-line position.

29. At this stage the worst case assumption has been taken and yield projections have been reduced by approximately £0.250m per year.

30. Final data is not expected until the end of January 2017.

Expenditure Requirement (Core Budget)

31. The revised MTFP identified a balanced budget in 2017/18 rising to a gap of £1.657m by 2019/20 and was based on resource estimates as outlined above, and assumptions about expenditure. *(see Appendix 2: Column 2)*

32. There are now a number of changes in respect of these expenditure forecasts, which are outlined below.

33. The revised MTFP identified base savings from 2016 pay awards and general inflation. The previous estimates for these figures are now replaced with the actual ones providing a further £0.087m saving. *(see Appendix 2: Column 3)*

34. The Local Government Pension Scheme (LGPS) has been subject to the regular tri-annual valuation. Whilst there is only a marginal increase (£0.010m) in the forward funding rate, there has been a higher £0.080m increase in the back-funding costs. *(see Appendix 2: Column 4)*

35. This distinction is unique to the LGPS as back-funding costs of the FFPS are met from a consolidated employers' contribution rate and direct government grant.

36. There are two technical adjustments in relation to the costs of PPL *(see Appendix 2: Column 5)*:

i. The MTFP was set based on the original business case (FBC) which at the time included Herefordshire Council. When that Authority withdrew, the Fire Authority re-confirmed its commitment to PPL on the grounds that the overall FBC saving was un-changed. However there was a change in the profile of these savings from the early part of the 10-year FBC (i.e. the current MTFP period) to the latter part. The MTFP was not at that time adjusted for the changed profile.
ii. Additionally the assumptions about Fire Authority share of PPL costs did not take account of the change in the employers NI rates as a consequence of the abolition of "contracting out" following the introduction of the single state pension. These costs should have been included in the budget and would have been included anyway had employees transferred to PPL.
iii. The net effect of these changes is to add £0.031m to expenditure.

37. Capital Financing has been reviewed in light of:
    i. The revised approved Vehicle Strategy;
    ii. The likely timescales for spending on major building projects;
    iii. The funding of the Wyre Forest Hub; and
    iv. Potential provision for priorities arising from the building condition survey to minimise long term financing costs.

38. As a result it has been possible to reduce the capital financing budget for 2017/18 and 2018/19, but the spend profile means that there is a “catch up” by 2019/20.

Excess Staff and Planned Use of Reserves

39. The table at paragraph 4 (above) shows the excess staff cost being met as planned from the budget reduction reserve and this assumption is continued.

40. As Members will recall, the grant cuts in the current 4 year settlement were front-loaded and approved the use of ear-marked balances to smooth the impact. This assumption is continued.

General Balances

41. The current MTFP assumes the use of £0.300m of balances in 2018/19:

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
General Balances at 1 April	1.838	1.838	1.538	1.538
Approved Use	0.150	(0.300)		
General Balances at 31 Mar	1.838	1.538	1.538	1.538

42. Relative to other Fire Authorities this level of balance is not high, and it should be noted that Fire Authorities now bear a risk in relation to council tax benefit and business rate yield, and so are more directly connected to local economic conditions.

43. Members will be aware that the last 2016-17 budget monitoring report identified potential savings of £0.928m but has yet to make a decision as to how this should be used.

44. 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.

Earmarked Reserves

45. These are reserves held to fund expenditure that will happen at some point in the future and Appendix 3 shows their current levels.

46. Although they stood at £9.7m at the start of 2016/17 only £4.7m is un-committed of which £1.8m is held for long term purposes. This leaves £2.9m remaining (see below).

Other Issues

47. For information, if the 2017 Pay Award is at 2% rather than the 1% provided in the budget, the 2017/18 (and future) gap would increase by £0.230m.

48. The projection does not yet include any savings from the transformational bid funded projects.

Overall Position

49. Taking into account all these changes the new net position is as set out below:

	2017/18	**2018/19**	**2019/20**
	£m	£m	£m
Funding	(31.465)	(31.090)	(31.482)
Core Budget	31.677	31.895	33.039
	0.212	**0.805**	**1.557**
Excess Staff	1.037	0.589	0.096
Use of Budget Reduction Reserve	(1.037)	(0.589)	(0.096)
	0.212	**0.805**	**1.557**
from CSR Phasing Reserve	(0.574)	(0.386)	
from General Balances		(0.300)	
from NNDR Reserve	(0.045)		
Net Gap/(Surplus)	**(0.407)**	**0.119**	**1.557**

50. Regardless of the change to funding arrangements, and if the same pay award, inflation, tax-base and Band D assumptions are made, there is still a gap of at least £1.4m in 2020/21, and this could be greater if there is a further grant loss as a result of full Business Rate Retention.

51. Members will be aware that there will be savings arising from the Transformational Bid funded projects, which will materialise during the MTFP period but are currently not included in the forecast as exact timing is uncertain.
    i. There will be some small financial savings from the Wyre Forest Hub (lower running costs of a modern building etc.):
    ii. the move of HQ to Hindlip will deliver size related savings as well as the opportunity for collaborative back office efficiencies, and in the longer term the disposal of the existing HQ building.

52. Whilst the phasing of these is uncertain it is proposed that the Authority ear-mark the £2.6m uncommitted earmarked balances to fund the present budget gap through to 2020/21, and adjust this sum downwards as certainty is received regarding the timing of these efficiencies.

Future Progress

53. Officers will continue to refine the budget figures and will receive final tax-base, collection fund figures and estimated business rate income.

54. The Fire Authority will meet on 15 February 2017 to agree a budget and precept for 2017/18.

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: Funding Forecast
Appendix 2: Expenditure Need
Appendix 3: Earmarked Reserves

Background Papers
Fire Authority 11 October 2016: Revision to the Medium Term Financial Plan
Fire Authority 17 February 2016: Budget and Precept 2016/17 and MTFP

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