

7. Financial Prospects and Future Planning

Purpose of Report

1. To inform the Authority of future financial prospects.
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Recommendation

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

Background

2. The provisional grant settlement was announced late on 13th December and the draft Financial Prospects report that was issued with the FRA papers is now updated to reflect the latest position.
3. In February 2010 the Fire and Rescue Authority (FRA) agreed a Medium Term Financial Plan (MTFP) for 2010-11 to 2013-14. It was, however, approved prior to the change in government, the October 2010 Comprehensive Spending Review and consequential grant settlement.
4. The Medium Term Financial Plan was based around a set of assumptions which are no longer appropriate, and as a consequence these have been reviewed.
5. The Chief Fire Officer and Director of Finance, along with most of the local MPs, met the Fire Minister on 11 November to present the case for fairness in funding to non-Metropolitan areas and efficiencies already achieved.
6. CFAs have recently formed a group to further the case of fairness in Grant distribution; the Chair and DCFO have represented the Authority on this group.
7. Some clarity has been given about the council tax freeze, which is in accordance with the MTFP assumptions.

Expenditure Requirement

8. These were revised to take account of the public finance announcements made by the Chancellor in June and October 2010 and differs from the original MTFP as follows:
 - Pay freeze for 2010/11 and 2011/12, 1% increases thereafter (previously 2% throughout).
 - Note that an additional 1% in pay would cost £0.224m in a full year.
 - Deferral of changes to Firefighters' Pension Scheme rates to April 2012 (previously April 2011).
 - Assumption that increased NI rates (£0.178m) are offset by banding changes as announced in the June Budget – full details still awaited.

9. In addition there are potential cost pressures in respect of:
 - Additional RDS training
 - Property maintenance
10. The assumptions made for the Policy and Resources (P&R) Committee report have subsequently been amended to take account of further developments, principally:
 - The treatment of Council Tax freeze grant as income and not as grant
 - Additional CLG charges relating to RCC
 - Loss of Firelink Grant
 - Removal of FFPS increase pressure
 - Additional Public Holiday in 2011/12
11. Appendix 1 gives details of the new expenditure requirement projections with the amendments since P&R Committee shown separately. It should be noted that at this stage they are raw projections and do not take account of the cumulative impact of closing annual budget gaps.
12. There is continued uncertainty over the future and timing of RCC go-live and it may be necessary to adjust this projection when more information is known.
13. The table below compares these revised projections to similar figures assumed in the MTFP:

	2011/12 £m	2012/13 £m	2013/14 £m
MTFP	32.153	33.367	33.805
Revised Projection	31.140	32.263	32.999
Saving	(1.013)	(1.104)	(0.809)

14. In spite of the additional cost pressures the core budget requirement is less than that in the MTFP, although some of this change relates to the inclusion of the £0.516m Council Tax freeze grant as income.

Available Resources

15. When the P&R Committee report was written it was assumed that grant would be cut between 2011/12 and 2014/15 against a profile of 6%, 3%, 5%, and 11%.
16. The grant settlement itself, whilst still challenging, is better than expected with an impact of:
 - 2011/12 : 2.4% cut *(compared to 6% cut forecast)*
 - 2012/13: 1.7% increase *(compared to 3% cut forecast).*
17. H&W has benefited from the implementation of formula changes, exemplified in the October consultation, which were robustly supported in the FRA response, and subsequent discussions between Officers and CLG civil servants. The H&W impact compares favourably to the overall position:
 - 2011/12 : 2.4% cut *(6.7% cut nationally)*
 - 2012/13 : 1.7% increase *(1.0% cut nationally)*

18. There was no indication of grant for 2013/14 and 2014/15 and the working assumption must be that the balance of the 25% cut in grant will be made in these 2 years.
19. The Council Tax freeze arrangements mean that setting a 0% increase in council tax in 2011/12 will provide a grant equal to 2.5% of the precept yield
20. No assumption has been made regarding the increase of Council Tax above the current level, but this is something that Members may wish to consider (see paragraphs 28 & 29 below).
21. Appendix 2 gives details of the potential resources, which are summarised below:

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Forecast	Forecast	Forecast	Forecast
	£m	£m	£m	£m	£m
Formula Grant	10.668	10.409	10.583	10.255	9.310
Precept	20.726	20.643	20.643	20.643	20.643
	31.394	31.052	31.226	30.898	29.953
% Grant	34%	34%	34%	33%	31%

Budget Gap

22. Combination of the expenditure requirement and projected future resources gives a budget gap analysed as follows:

	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m
Raw Budget Requirement	31.140	32.263	32.999	33.652
Forecast Resources	31.052	31.226	30.398	29.953
Budget Gap	0.088	1.037	2.601	3.699

23. The cumulative savings to be identified are:

	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m
2011/12 on-going savings	0.088	0.088	0.088	0.088
additional and on going 2012/13 savings		0.949	0.949	0.949
additional and on going 2013/14 savings			1.564	1.564
additional and on going 2014/15 savings				1.098
	0.088	1.037	2.601	3.699

24. Whilst the favourable settlement has mitigated the position in the first year, there are still significant potential savings to be made in the latter years. Although there remains some uncertainty about the timing of £0.565m of RCC costs commencing in 2012/13.
25. This projection is made assuming no increase in Council Tax (see paragraphs 28 & 29 below); but it also assumes pay awards of only 1% pa from 2012.

Closing the Budget Gap

26. The Principal management team has been working over the past few months to challenge individual budget lines and areas of spend, identifying options for change and reduction in expenditure. Members, Officers and staff shared initial ideas through the Meeting the Challenge workshops earlier in the year and these have informed both the 2011/12 draft IRMP proposals and other emerging plans to address the financial challenges ahead. £140,000 saving has already been identified through a reduction in the number of Principal Officer posts and the 2011/2012 IRMP being considered today proposes a range of reviews to ensure the Service continues to reduce risk in its communities whilst making the best use of its available resources.
27. Whilst the recent provisional grant settlement is better than anticipated it is important to note that the financial challenges facing the Authority continue to be significant. Hereford and Worcester have suffered from poor grant settlements for several years and have already had to deliver significant efficiencies to ensure that there is a balanced budget. The projected savings required from 2012/13 onwards cannot be met from back office efficiencies alone, and changes to service levels cannot be ruled out. Work to scrutinise all areas of spend and opportunities for change and reductions in expenditure will continue over the coming months.
28. Beyond 2010/11 the FRA will have control of local council tax policy and may choose to use this method to ease the budget gap. For information, an annual 2.5% increase in council tax (which equates to under £1.84 per Band D tax-payer per year) would increase available resources by :

	2012/13	2013/14	2014/15
	Forecast	Forecast	Forecast
	£m	£m	£m
2012/13	0.516	0.516	0.516
2013/14		0.529	0.529
2014/15			0.542
	0.516	1.045	1.587

29. This would reduce the budget gaps to:

	2012/13	2013/14	2014/15
	£m	£m	£m
Raw Gap	1.037	2.101	3.699
Potential Precept Increase	(0.516)	(1.045)	(1.587)
Residual Gap	0.521	1.056	2.112

Equality and Diversity Impact

30. The immediate impact on recruitment activities means that progress against equality and diversity targets for the recruitment of wholetime female and BME firefighters will not be achievable. However, retained recruitment will continue based on need.

31. This coincides with the non-reporting of such targets at government level, and subsequently employment levels will continue to be monitored, to ensure that although limited positive progress can be made in this period, what recruitment does take place happens in an environment of good equalities practice.

Future Progress

32. A budget planning seminar for Members is planned for early January and there will be a more detailed consideration of budget preparation 2011/12 at the January meeting of the Policy and Resources Committee and any recommendations from that Committee will be included when the Authority meets to determine Revenue and Capital Budgets for 2011/12 and the consequential Council Tax Precept.

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

32. 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: Expenditure Requirement Forecast
Appendix 2: Resources Projection

Background Papers

None

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