

8. Budget and Precept 2012/13 and Medium Term Financial Strategy

Purpose of report

1. To determine the Revenue and Capital Budgets and the Council Tax Requirement for 2012/13.
 2. To approve the Prudential Indicators and to set a Minimum Revenue Provision (MRP) policy for 2012/13.
 3. To identify potential future resources, their consequential impact on future year budgets and the future Council Tax Requirement.
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Recommendations

The Chief Fire Officer and Treasurer recommend that the Authority:

- ***Approve the Capital Budget and Programme as set out at Appendix 6;***
- ***Approve the Statement of Prudential Code Indicators set out in Appendix 9;***
- ***Approve the Minimum Revenue Provision (MRP) policy for 2012/13 as set out in Appendix 10;***
- ***Approve the Revenue Budget, as set out in Appendices 1 and 4;***
- ***Approve the Council Tax Requirement as set out in Appendix 7; and***
- ***Note the MTFs as set out in Appendix 8.***

Background

4. The Localism Act 2011 has changed the technical details of the budget and precept setting for 2012/13, but not the fundamental principles. Previously there was a requirement to approve a Net Budget Requirement from which the Council Tax levels flowed. Under the Localism Act this is replaced with approval of the Council Tax Requirement, taking account of income, including grants. As a consequence Appendix 7 has a different format to that used since 2004/05. For this year the table includes, in addition, the 2011/12 calculation shown in the new format to demonstrate that the outcome is the same
5. In December 2011 the FRA considered the 2012/13 budget based on the information and assumptions available at that time. A workshop was held in mid-January to ensure the widest and most up-to-date information was given to all Members, and the Policy and Resources Committee considered further progress at its meeting in January 2012. The budget and council tax strategy outlined in this report are based on the discussion and recommendation of that Policy and Resources Committee meeting.

6. The grant settlement for 2012/13 has been confirmed as £11.104m, which now includes the previously received 2011/12 Council Tax Freeze Grant, but is exactly as expected.
7. The Medium Term Financial Strategy is always based on a set of assumptions about the future. Given the unprecedented degree of financial uncertainty the country now faces, and in order to provide more openness to our communities, more emphasis has been placed on the reasoning behind the assumptions now being made.
8. The assumptions for future years (2013/14 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 latest projection of future resources can be split between formula grant and precept.

Formula Grant

10. In December 2011 the government published a Bill to implement the changes proposed in the Local Government Resource Review. From 2013/14 this will have a fundamental impact on the way the FRA is funded with the removal of central government grant and its replacement by retention of a share of the Business Rate yield.
11. The full detail of how this will work for Fire and Rescue Authorities is not known (indeed it was not until the Act was passed that FRAs were included at all) but government has indicated that no FRA will receive less money than it would have received under the grant assumptions under the Comprehensive Spending Review (CSR). Although no individual grant allocations for the 3rd and 4th years of the CSR have been given.
12. As has been indicated by the Department for Communities and Local Government (CLG) no FRA would have known its 2013/14 grant until Dec 2012 in any case, so as has been previously indicated the grant assumptions for 2013/14 and 2014/15 are based on the known national Fire Grant Control totals.
13. This itself provides a degree of risk as the grant changes experienced in 2011/12 and 2012/13 have varied significantly between individual FRAs as the table on the following page illustrates. (Each additional 1% change is worth about £0.100m to H&WFRA).

	Overall Change	H&W Change	Range of Changes
2011-12	-6.7%	-2.4%	+0.3% to -9.5%
2012-13	-1.0%	+1.7%	+2.6% to -3.4%
2013-14	- 8.5%	?	?
2014-15	-5.0%	?	?

14. Furthermore, following the Chancellor's statement that there will be a further 2 years of public sector pay restraint (capped at 1%) government has announced that the previously indicated grant totals will reduce because the planning was based on a higher (but unspecified) assumption about pay awards.
15. To date the information is only available at total local government grant level and cannot be split to the Fire Service nationally. An estimate has been made assuming that the existing grant totals incorporated an assumption of pay awards at 2%.
16. Additionally the Chancellor also announced a further 2 years of "austerity" following the current Comprehensive Spending Review (CSR) period which was also the period of the current MTFS. In the absence of any other information and without knowing the outcome of paragraphs 10 to 13 above, an assumption of a further 5% cut in grant (based on the 2014/15 figure) following this CSR period has been assumed.
17. In summary the formula grant assumptions are:
 - An 8.5% cut in 2013-14 – with an adjustment for reduced pay awards.
 - A 5.0% cut in 2014-15 – with an adjustment for reduced pay awards.
 - A further 5.0% cut in 2015-16.

Precept Assumptions

18. The precept assumptions can be sub-divided into those relating to the tax-base and those relating to the Band D level of tax and any changes to it.
19. As with formula grant, proposed changes to Local Government Resourcing, particularly regarding the localisation of Council Tax Benefit and the implications on precepting authorities, will have an as yet un-quantified impact on precept levels.
20. Based on information supplied by Billing Authorities and headline information about reduction in funding of Council Tax Benefit, assuming no local changes to policy after localisation, it has been possible to provide a raw estimate of future impact. This will be refined over 2012/13 prior to the budget setting for 2013/14.

21. Final figures from the Billing Authorities indicate a 0.53% rise tax-base and a net Collection Fund surplus of £0.055m for 2012/13, but consistent with Worcestershire County Council a cautious assumption of zero future growth is made because of the uncertainty surrounding these future changes.
22. Although the annual net Collection Funds surpluses have ranged from a total of £0.013m to £0.107m (being £0.031m in 2011/12) there have been significant variations both surplus and deficit from individual authorities and it would be imprudent to fund core expenditure from this source.

Council Tax Freeze Grant

23. For a further year government has offered a grant to any FRA which freezes council tax for 2012/13. The grant is equivalent to 3.0% of Council Tax, but unlike the 2011-12 grant it is payable for one year only.
24. The financial consequences of taking the grant are that there would be a bigger resource gap in 2013-14 than would otherwise be the case.
25. Following discussion the Policy and Resources Committee have recommended that the FRA approve acceptance of the Council Tax Freeze Grant in 2012/13 by setting a 0% Band D Increase, and that the previous planning assumption of annual increases of 3.45% be maintained for future years following 2012/13.
26. This figure is below the level (4.0%) that would require the FRA to conduct a referendum on the level of increase in 2012/13 but cannot be guaranteed for future years as it is dependent on government's future policy on Council Tax rises.
27. For information the different resources available in each year if the Freeze Grant were not taken and the precept in 2012/13 increased by 3.45% are given below:

	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m
Recommended Resources	33.821	32.600	32.784	32.934
Resources without Freeze Grant	33.914	33.345	33.555	33.721
Additional Resources	0.093	0.745	0.771	0.787

Expenditure Requirement

28. The expenditure requirement has continued to be refined and the key assumptions around pay, inflation and interest rates are outlined in the paragraphs below.
29. In November 2011, as part of the collection of data for the Firefighters' Pension Top Up Grant, DCLG provided the Treasury planning assumptions

for Consumer Price Index (CPI) inflation for the CSR period. These figures have been used for 2012/13 with an average of 3% thereafter

30. In addition it has been thought prudent to include an additional inflation provision for 3 key areas of expenditure that are projected to individually increase well above the average CPI/Retail Price Index (RPI) level. Two of these areas are utilities (gas and electricity) and diesel fuel.
31. The third area of additional inflation provision is around business rates. Although the annual increase is capped at RPI by legislation, (but is increasing by over 5% this year) there is also an impact of changes to rateable values which means that the net increase will be greater than the RPI %.
32. For 2012/13 the additional inflation provision on these (over the average level) amounts to £0.064m. Although current trends indicate small falls in utility prices this is after a period of very significant increases, well above the provision made in the 2011/12 budget.
33. Although the Chancellor has made clear the government's policy on public sector pay increases (a 2 year pay freeze followed by 2 years 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.
 - The local government sector had already had a pay freeze in the year before the Chancellor's 2 year pay freeze.
34. Whilst the provision for 2013-14 has been held at the 1% guideline, it is considered prudent to provide a provision for 2012-13 above the 0% level, although clearly if there is no pay award the resultant saving will flow through to close the future budget gaps.
35. For 2014/15 a higher figure has been provided to reflect that after 2 years of pay freeze and 2 years at 1% there may be pressure for a significantly higher award so a provision of 2% in 2014/15 and 3% in 2015/16 is made at this stage.
36. The relevant assumptions are summarised below in tabular form for ease of reference:

	2012/13	2013/14	2014/15	2015/16
General Inflation	4.30%	3.00%	3.00%	3.00%
Utilities - Gas	15.00%	15.00%	10.00%	5.00%
Utilities - Electricity	10.00%	10.00%	7.50%	5.00%
Diesel Fuel	10.00%	10.00%	7.50%	5.00%
Business Rates	7.50%	5.00%	3.50%	3.00%
Pay Awards	1.00%	1.00%	2.00%	3.00%
Long Term Interest	3.00%	4.00%	4.00%	4.00%

Efficiencies and Savings

37. Members will be aware that the FRA has made significant efficiencies over the last 7 years to counter the poor grant settlements experienced.
38. In addition, since 2010/11 the Service has reviewed and identified significant savings in senior management and support services as indicated in Appendix 5, which have been incorporated into the budget projections.

Capital Programme

39. The Capital Programme, using prudent financing assumptions and based on the agreed Asset Management Plan and Fleet Strategy and with the usual annual provision of £0.600m for minor buildings and IT schemes etc; is included as Appendix 6. The revenue consequences of the schemes, including financing costs, are included in the revenue budget projections in Appendices 1, 2 and 4, and the review of Prudential Indicators in Appendix 9.
40. The Capital Programme has been significantly amended since the original approval in February 2011, and takes account of the FRA approval of a revised Asset Management Strategy in March 2011 and subsequent allocations of budget to major rebuilding schemes.
41. This review has incorporated significant additional resources e.g. Capital Grant and Capital Receipts; not considered in February 2011 and also includes vehicle assets previously assumed to be financed by leases.
42. In accordance with the Policy and Resources Committee capital budget monitoring arrangements, the Capital Strategy provides for the proposed Major Buildings block in an illustrative and flexible way, but expenditure will only be incurred when a specific scheme is approved by the Policy and Resources Committee.
43. On the face of it, there is a significant increase in the capital programme, however, the table below demonstrates, in conjunction with Appendix 5, that there is in fact a marginal reduction over the previous MTFS period i.e. 2011/12 – 2014/15.

	£m
Total Capital Expenditure 2011/12 to 2014/15 - Feb 2011 MTFS	18.085
re-phased from 2011/10	4.895
previously to be funded as leasing	0.657
Capital Grants 2011/12 and 2012/13	2.346
Use of LPSA Capital Reward Grant	0.332
Use of E&D Grant for STFs	0.038
Use of New Dimensions Reserve for STFs	0.337
(anticipated) Control Resilience Capital Grant	1.721
Capital Receipts - from replaced Fire Stations	1.414
Sub-total	29.825
Total Capital Expenditure 2011/12 to 2014/15 - Feb 2012 MTFS	29.770

44. As negotiations are currently in progress with potential contractors for the major building schemes, individual allocations are not shown in order that the information does not compromise the FRA negotiation position.

Investment of Surplus Funds

45. In accordance with the FRA Treasury Management Strategy, surplus funds are invested by, and with Worcestershire County Council.
46. Given the continuing uncertainty in financial markets, the Treasurer advises that investment should continue to be focussed on security. As a consequence all surplus funds are invested with the Bank of England, and the corresponding low return continues to be factored into the budget.
47. Since October 2008 the FRA had adopted a policy of avoiding new long term borrowing, where working capital balances permit. It is likely that during 2012/13 this source will be effectively exhausted and long term borrowing will again be required to fund the capital programme.
48. The FRA will only extend long term borrowing when cash-flow requirements dictate that it is necessary, and only to finance long term assets.

Budget Risks

49. Setting a net budget at **£33.821m** still presents risks, for example:
- Pay Award – A provision of 1% has been made in 2012/13, a variance of +/- 0.5% adds or saves £0.090m.
 - General Inflation – Each additional 1% costs £0.100m.
 - The impact of the major changes to local government finance and the nature of estimation of future grant are unknown but each 1% difference in grant equates to around £0.100m
 - Future Council Tax Policy is also unknown, although 3.45% increase is included in the MTFS a reduction by 0.5% could reduce resources by around £0.100m

Business Consultation

50. In accordance with established practice, statutory consultation with business rate-payers has been initiated by correspondence with appropriate representatives of business. (The Chamber of Commerce, the local branches of the Confederation of Small Businesses and the National Farmers' Union). To date no responses have been received.

Future Budget Gap

51. The forecast budget requirement and projected available resources based on the assumptions outlined above and shown in detail in Appendix 8, give a cumulative budget gap as indicated below:

	2013/14	2014/15	2015/16
	£m	£m	£m
Projected Budget need	33.780	34.750	35.960
Projected Resources	(32.600)	(32.784)	(32.934)
Budget Gap	1.180	1.966	3.026

52. Officers will continue to work to identify cost savings in every possible area, but with the above levels of gap, it should be acknowledged that these can only be closed with a reduction in the numbers of staff employed.
53. Identified proposals will be brought to the relevant forums for discussion and agreement.

Revenue Reserves Strategy

54. The level of general balances at 31 March 2011, as shown in the Statement of Accounts reflects accounting treatment of the then potential costs associated with the retirement of the previous Chief Fire Officer. This matter is now resolved at significantly lower cost to the FRA and the balance is returned to General Reserves in 2011/12.
55. The table below shows the projected position in relation to balances compared to the budget requirement over the MTFS period. The budget requirement figure is based on the projection of future resources (see Appendix 8) available rather than the budget need as this will be the determinant of future budget requirements.

	2011/12	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m	£m
General Reserves balance at 1st April	0.934	1.396	1.396	1.396	1.396
Adjustment in 2011/12	0.462				
Balance at 31st March	1.396	1.396	1.396	1.396	1.396
Net Budget	32.889	33.821	32.6	32.784	32.934
% of Budget Requirement	4.2%	4.1%	4.3%	4.3%	4.2%

56. No other addition to balances in 2011/12 is shown as the in year underspending are held pending confirmation of the DCLG Control Resilience Project Grant

57. The level of balances now projected at around 4.1% - 4.3% is marginally higher than the 3.7% in the previous MTFS reflecting the additions to balances in 2010-11 as a result of prudent budget management, but the financial environment remains uncertain. Latest Audit Commission information shows that the level of reserves held by H&WFRA is in the lower 10% of all Fire Authorities.
58. Whilst this level of balances is desirable (see also paragraph 50 above), there is an opportunity cost of holding balances. They could be used to finance one off expenditure or temporarily reduce the Council Tax precept. The risk is, however, that any unforeseen expenditure could not be met.
59. Ear-marked balances, listed below, are held for specific purposes and at the end of 2012/13 are estimated to be:

	£m
New Dimensions	0.373
Pensions	0.167
Training	0.123
ICP Workwear	0.060
Operational Activity	0.300
Development	0.366
	<hr/> 1.389

- New Dimensions funding is given by DCLG for special activities e.g. USAR and represents funding in advance of expenditure.
- Pension Reserve is held pending final resolution of the pension element of the RDS Part-time Workers Tribunal Agreement.
- Training Reserve is used to phase training as required.
- ICP-Workwear matches the expenditure profile and core budget provision over the contract life.
- Operational Activity Reserve is to meet any abnormal high costs as a result of major incident deployments e.g. flooding or Malvern Hills fires.
- Development Reserve is held to be used for capacity building, pump-priming efficiency savings or smoothing the timing of cost saving initiatives required to meet future budget gaps.

Prudential Code Indicators

60. Since 1 April 2004, the Local Authority capital finance system has been one of self-regulation based on a Prudential Code drawn up by the Chartered Institute of Public Finance and Accountancy (CIPFA).
61. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Local Authorities are affordable, prudent and sustainable or, in exceptional cases, to demonstrate that there is a danger of not ensuring this, so that the Local Authority concerned can take timely remedial action.

62. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code also has the objectives of being consistent with and supporting, local strategic planning, local asset management planning and proper option appraisal.
63. To demonstrate that Authorities have fulfilled these objectives, the Prudential Code sets out indicators that must be used and the factors that must be taken into account. The Code does not include suggested indicative limits or ratios. These are for a Local Authority to set itself, subject only to any controls under Section 4 of the Local Government Act 2003 (Government Reserve Powers).
64. The prudential indicators required by the Code are designed to support and record local decision making. They are not designed to be comparative performance indicators and use of them in this way would be likely to be misleading and counter-productive. In particular, Local Authorities had widely differing debt positions at the start of the Prudential system and the differences are likely to increase over time as a result of the exercise of local choices. The system is specifically designed to support such local decision making in a manner that is publicly accountable.
65. In setting or revising the prudential indicators, the FRA is required to have regard to the following matters:
- Affordability, e.g. implications for Council Tax;
 - Prudence and sustainability, e.g. implications for external borrowing;
 - Value for money, e.g. options appraisal;
 - Stewardship of assets, e.g. asset management planning;
 - Service Objectives, e.g. strategic planning for the Authority; and
 - Practicality, e.g. achievability of the forward plan.
66. The Treasurer has prepared the prudential indicators having considered the matters above and these are set out at Appendix 9.

Minimum Revenue Provision (MRP)

67. Minimum Revenue Provision is the amount set aside in the revenue budget to meet the future repayment of borrowing incurred to pay for capital investment.
68. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 now require that an Authority sets its own prudent level of MRP, rather than being a specific calculation, by adopting an MRP policy in advance of the year to which it relates.
69. Appendix 10 sets out the proposed position, which is a continuation of the previously approved policy.

Budget Calculations: Personal Assurance Statement by the Treasurer

70. Section 25 of the Local Government Act 2003 requires the Treasurer to report to the Authority when it is setting the budget and precept (council tax). The Authority is required to take this report into account when making its budget and precept (council tax) decision. The report of the Treasurer must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.
71. The Treasurer states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:
- the Fire and Rescue Authority budget policy;
 - the need to protect the Fire and Rescue Authority's financial standing and to manage risk;
 - the current year's financial performance;
 - the financial policies of the Government;
 - the Fire and Rescue Authority's Medium Term Financial Strategy and Planning framework;
 - capital programme obligations;
 - Treasury Management best practice;
 - the strengths of the Fire and Rescue Authority's financial control procedures including audit consideration;
 - the extent of the Fire and Rescue Authority's balances and reserves; and
 - the prevailing economic climate and future prospects.

Equality and Diversity Impact

72. 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 and in this area the Service will continue to do all it can to address our diversity targets.
73. This budget settlement coincides with the removal of the requirement to report 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.

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	Yes	Refer to recommendations – FRA has statutory duty to make these decisions.

Additional Considerations

74. 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).	Yes	
Strategic Policy Links (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	Yes	
Risk Management / Health & Safety (e.g. risk management and control measures, risk register score).	No	
Consultation with Representative Bodies	No	

Supporting Information

Appendix 1	Revenue Budget 2012/13
Appendix 2	Explanation of variations in Appendix 1
Appendix 3	Personnel Budget
Appendix 4	Revenue Budget Allocation 2012/13
Appendix 5	Savings since 2010/11
Appendix 6	Capital Programme
Appendix 7	Council Tax Requirement Calculation 2012/13
Appendix 8	Medium Term Financial Forecasts
Appendix 9	Statement of Prudential Code Indicators
Appendix 10	Minimum Revenue Provision policy 2012/13

Background Papers

Report: Future Financial Prospects, Fire and Rescue Authority – 14 December 2011

Report: Budget 2012/13 and Review of Medium Term Financial Plan, Policy and Resources Committee – 25 January 2012

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