

TYNE & WEAR FIRE AND RESCUE AUTHORITY

Item 7

MEETING: 15th DECEMBER 2014

SUBJECT: BUDGET PLANNING FRAMEWORK 2015/2016

JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE FINANCE OFFICER

1 Purpose of Report

- 1.1 This report identifies the key factors influencing the development of the Authority's financial plans into the medium term and sets out the Budget Planning Framework for 2015/16.

2 Description of Decision

2.1 Members are recommended:

- To note the contents of the report and the revised estimated funding gap based on the most up to date government funding releases;
- To agree the proposed Budget Planning Framework summarised at Section 8.1 of the report which will guide the preparation of the Revenue Budget for 2015/16;
- To note that the full Medium Term Financial Strategy 2015/16 to 2017/18 will be presented to the Authority in February 2015.

3 National Economic Context

3.1 Impact of the Deficit Reduction Plan

The Government is continuing with its deficit reduction plan and the latest position shows an overall reduction in national funding of 13.16% in 2015/16. The Chancellor has indicated that public sector funding will continue to be reduced up until 2019/20 to create a small budget surplus should they be successful at the next general election.

3.2 Inflation

The Consumer Price Index (CPI) moved below the Government's target level of 2% in January 2014 for the first time since December 2009. The impact of price increases on local government costs is not funded by Central Government and must be contained within the Authority's budget planning.

CPI inflation reduced from 1.9% in June to 1.2% in September and the Bank of England predict that inflation will remain below 2% for the next three years.

3.3 Base Rate

The Bank Base Rate has remained at an all-time low of 0.5% since March 2009. The Bank of England sets monetary policy to meet a 2% inflation target in the medium term and, given low levels of inflation in the Eurozone and Japan, it does not anticipate strong external pressure to its target levels.

Most forecasters now think that increased growth and employment creation, alongside low inflation, means that there is no immediate pressure to increase the Base Rate and that the first increase will not take place until June 2015 at the earliest, with rates then increasing gradually for the following two years and reaching 2.0% by Q4 2017.

There are however a number of forecasters that do not expect any increase until Q1 2016. This position therefore will continue to be monitored and reviewed and the impact taken in to account in budget planning as the position becomes clearer.

4 Government Funding

4.1 Revenue Spending Power 2015/16

4.1.1 In January 2014 the Government provided indicative settlement figures for 2015/16 alongside the final funding settlement for 2014/15.

4.1.2 On 22nd July 2014 the Department for Communities and Local Government (DCLG) published a technical consultation paper on the Local Government Finance Settlement for 2015/16 (response deadline 25th September 2014) and resulted in no change to the net Revenue Spending Power position of the Authority to that included in the indicative settlement for 2015/16, and reported to Authority in February 2014.

4.1.3 In responding to the Government's technical consultation questions, the Authority took the opportunity to re-iterate the essential need for the Government to seek to ensure a fairer settlement for the Authority in 2015/16 and future years (set out at Appendix 1 for information).

4.1.4 Final funding allocations for 2015/16 will not be made available until the government releases its detailed information as part of the local government finance settlement for 2015/16 in December. At this stage, therefore, it is proposed to progress with 2015/16 planning based on the slightly amended indicative reduction in government funding of £2.596m as set out in the table in paragraph 7.1 of the report. This figure reflects the fact that the Authority accepted council tax freeze grant funding in 2014/15 which will be base-lined into the 2015/16 settlement.

4.2 2016/17 and Beyond

4.2.1 The Government has yet to provide any detailed funding allocations for 2016/17 and beyond. Normally an indicative funding position for 2016/17 for each

authority when the next Local Government Finance settlement for 2015/16 is released in December. However at this stage the position is uncertain given the general election in May 2015. Whilst none of the political parties have set out specific medium term spending plans, should they win the general election, there is unlikely to be a relaxation of the overall spending position:

- The Conservatives have indicated that they will continue with austerity measures into the medium term, in particular through reducing the welfare budget up to 2017/18.
- The Labour party have said they will balance the books and deliver a surplus on the current budget and reduce national debt over the next Parliament. They have also indicated that they would retain the public sector spending plans for 2015/16 of the current government.

The incoming government would, regardless of party, be expected to carry out a quick review of its available resources and to assess its spending plan options and decisions in light of its key policies. However, the long term prognosis is for public sector cuts to continue on a similar trajectory to those in 2015/16.

5 Local Income Position

5.1 Council Tax

- 5.1.1 The Localism Act provides for the provision of referendums to veto excessive council tax (precept) increases. This effectively places a limit on council tax increases and if authorities exceed the government limits then the public will be able to vote to agree or veto any considered 'excessive' increase. For 2014/15 a referendum requirement applied for proposed increases in Council Tax of 2% and above.
- 5.1.2 Government has confirmed Council Tax Freeze Grant funding at a rate of 1% to compensate those Authorities who decide not to increase their Council Tax in 2015/16 and that this has been built into the indicative government funding allocations and base funding position for future years. There is no government guidance beyond this financial year.
- 5.1.3 The Authority will need to come to a view on whether to accept the freeze grant available for 2015/16 worth £243k or to come to a judgement on increasing the precept level which has not been increased in each of the last four years (one of only eight fire authorities to do so).
- 5.1.4 The Local Council Tax Support Scheme was introduced from April 2013 and is currently in its second year of operation. A review of the scheme is required annually by each of the Authority's constituent district councils, who must consult with the Authority where changes are proposed and be notified of the financial impact before 31st January 2015. Any changes to the current schemes in operation could impact upon the Authority's Council tax base and, as a result, the level of income it can expect from its precept. The Authority will reflect any financial impacts in the budget as necessary.

5.2 Business Rates

- 5.2.1 Under the Retained Business Rates funding arrangement for local Government implemented from April 2013, the Authority is allocated locally 2% of increased income arising from growth in the Local Business Rates base from its constituent authorities (equally it shares the risk of any under achievement of income targets).
- 5.2.2 Inherent within the scheme, is growth arising from annual inflationary increases to Business Rates. However there is continuing uncertainty, specifically around appeals and avoidance tactics, which can impact on the level of income achieved. The position will be kept under review and changes to Business Rates income will be reflected in the Budget Planning Framework as appropriate.

5.3 Reserves and Balances

- 5.3.1 The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 5.3.2 In accordance with the approach adopted to date, all earmarked reserves will be revisited and reviewed as part of the budget process to ensure they still accord with the Authority's priorities and overall funding position.

6 Spending Pressures and Commitments

- 6.1 It is proposed to take into account the following spending commitments in the Budget Planning Framework for 2015/2016.

6.2 Pay and Pensions

6.2.1 Pay

The Government has indicated a general limit on public sector pay of a 1.0% pay increase.

The average 2.2% pay settlement recently agreed for all non-uniformed staff (covering both 2014/15 and 2015/16 financial years) applicable from 1st January 2015 is still broadly in line with the government's limits and the levels already included within the MTFS over this period. For planning purposes a prudent provision has also been built into the MTFS from 2015/16 for uniformed staff.

6.2.2 Pensions

Local Government Pension Scheme

The Triennial Actuarial review of the Local Government Pension Scheme was undertaken in 2013 covering 2014/15 to 2016/17. The outcome of the review has been reflected in the planning for 2015/16 and 2016/17.

Firefighters Pension Scheme

As proposed government changes to the Scheme (2015) are currently being disputed by the Union and its members, the financial implications of any developments / agreements will be reviewed and reflected in the estimates for 2015/16 and in the MTFS as appropriate.

6.2.3 National Insurance

The Pensions Act 2014 provided for reform of the state pension system introducing a single tier pension. As part of the reforms, the contracting out for occupational pension schemes from April 2016 will be abolished. For employers, the abolition of contracting out will result in an increased cost of 3.4% on national insurance contributions. The Act provides no method to alleviate the additional financial burden. The impact for 2016/17 is reflected within the MTFS.

6.3 Energy Prices

Energy and vehicle fuel prices continue to be volatile. It is therefore proposed that prudent provision be included for continued annual increases in charges for gas, electricity and vehicle fuel for the medium term. However, should be noted that increases are lower than anticipated because of the Authority's proactive approach and actions it has taken, in respect of developing and then implementing its carbon management policy.

7 Summary Resource, Pressures and Commitments Position

7.1 Taking government funding reductions and spending pressures outlined in section 6 into account, the table below sets out the revised estimated funding shortfalls to be addressed by the Authority by updating the last MTFS reported to members in March 2014 with the latest available information.

MTFS 2015/2016 to 2017/2018	2014/15 £m Actual	2015/16 £m Indicative	2016/17 £m Projected	2017/18 £m Projected	Total £m
July 2014 Assumptions -					
Government cuts	2.342	2.596	2.557	2.130	9.625
Other resources/cuts	(0.870)	0.367	(0.020)	(0.020)	(0.543)
Spending pressures	1.151	0.993	0.976	0.900	4.020
Total	2.623	3.956	3.513	3.010	13.102
IRMP savings	(1.575)	(2.614)	(1.600)	(1.165)	*(6.954)
In year Funding Gap	1.048	1.342	1.913	1.845	6.148

* Further £0.650m of IRMP savings will be achieved in 2018/19 from current actions

7.2 The above figures include estimated savings from the response model review.

The figures in the table however do not include:

- a) Any future savings from the current IRMP actions still to be implemented – two further IRMP actions (2014/17) have been agreed by the Authority which relate to greater collaboration working and a further organisational review.
- b) Any increase in the council tax precept for 2015/16 onwards, nor any take up of freeze grant on the basis these decisions have not yet been agreed;
- c) Any budget surplus achieved in year / over the period;
- d) Temporary use of reserves to smooth the implementation of IRMP savings.

7.3 The level of funding reduction, as currently presented, represents a very significant challenge given the already compounded impact of the reductions already made since 2010/11 for the Authority. The prospect of significant reductions being required year on year continues over the medium term with further reduction in Authority resources and possible capacity over the full term of the next Parliament.

7.4 The cumulative pressures projected at 2017/18 of £13.102m shows that the Authority's decision to earmark around £6m of its reserves to temporarily help support the budget over the medium term is required to smooth the implementation of the IRMP actions. Clearly however, the in year budget gap needs to be addressed on a permanent basis by considering a combination of precept increases and further IRMP actions. This position will need to be regularly updated as new information emerges and considered annually as part of each budget setting process.

7.5 The table below shows the details of both, an assumed increase in council tax of 1.99% each year from 2015/16 (to avoid the need to hold a referendum), and the comparable income by accepting a 1% freeze grant, should this continue into the next parliament.

MTFS 2015/2016 to 2017/2018	2015/16 £m Indicative	2016/17 £m Projected	2017/18 £m Projected	Total £m
(1.99%) Precept increase	(0.387)	(0.400)	(0.410)	(1.197)
(1%) Freeze Grant	(0.243)	(0.251)	(0.257)	(0.751)

Both options help to reduce the projected gap in resources outlined in paragraph 7.1.

7.6 An updated position will therefore be reflected in a revised MTFS to be presented to members in February 2015.

8 Proposed Budget Planning Framework

8.1 It is proposed the budget planning framework as set out below is adopted:

- Budget planning to be based on the high level position outlined at section 7 and is to be updated in light of the Local Government Finance Settlement expected later in the month;
- Provision for spending commitments to be included at this stage on the basis set out at section 6 and is to be kept under review;
- Budgets to be prepared on the basis that all spending pressures not specifically identified as commitments to be accommodated within existing budgets;
- All commitments against Delegated surpluses / reserves to be reviewed;
- The position regarding the Council Tax Precept to be considered as part of the budget process;
- Commitments against general balances and earmarked reserves are to be updated as necessary throughout the budget process.

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