

TYNE & WEAR FIRE AND RESCUE AUTHORITY

Item: 6

MEETING: 16TH FEBRUARY 2015

SUBJECT: REVENUE BUDGET 2015/2016 AND MTFS 2015/2016 to 2017/2018

**JOINT REPORT OF THE CHIEF FIRE OFFICER, CLERK TO THE AUTHORITY
AND THE FINANCE OFFICER**

1. PURPOSE OF THE REPORT

- 1.1 Initial consideration was given to the summary draft Revenue Budget for 2015/2016 by the Authority at its meeting held on 15th December 2014. The purpose of this report is to present for consideration and approval by members:
- the Revenue Estimates for 2015/2016;
 - the Authority's Council Tax Requirement for 2015/2016;
 - the Precept required to be levied on the District Councils in Tyne and Wear for 2015/2016, and
 - an updated Medium Term Financial Strategy Statement for 2015/2016 to 2017/2018.

1.2 A more detailed report is included in Appendix 1 for information.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2015/2016

- 2.1 The provisional Finance Settlement was issued on 18th December 2014. The Government's Revenue Spending Power for Tyne and Wear Fire and Rescue Authority will reduce by £2.486m or 4.7% in 2015/2016 to £50.194m compared to an adjusted £52.680m in 2014/2015.
- 2.2 The Final Local Government Finance Settlement for 2015/2016 was announced on 3rd February 2015 and as anticipated that there were no changes to the Authority's funding allocations to those included in the Provisional Settlement.
- 2.3 As reported in January, the Authority continues to face a disproportionately greater reduction in funding compared to most other Fire Authorities and the more deprived areas, mainly the Metropolitan Fire Authorities, continue to see the highest level of overall cuts to their funding.
- 2.4 The bulk of the cut is in respect of the Authority's Settlement Funding Assessment (SFA) allocation which has been reduced by £2.798m in cash terms (-8.78%) in 2015/2016.



3. BUDGET CONSULTATION

- 3.1 In compliance with the Authority's statutory obligations, Members and Officers met with representatives of the North East Chamber of Commerce at the Brigade Headquarters on 10th February 2015.
- 3.2 The notes of the meeting and any response of the Chamber of Commerce will be tabled at the meeting of the Authority.
- 3.3 It is recommended that Members take into account the views of those consulted as they consider the Budget proposals and the Medium Term Financial Strategy position.

4. REVENUE BUDGET UPDATE 2015/2016

- 4.1 The 2015/2016 Revenue Budget has been set taking full account of the significant funding reductions facing the Authority this year and the ongoing implications anticipated for future years.
- 4.2 The Chief Fire Officer has also undertaken a base budget review of all delegated Budgets, with the intention of ensuring resources are directed at key strategic priorities as informed by the Strategic Plan, as well as identifying efficiency savings which have also been built into the Medium Term Financial Strategy (MTFS).
- 4.3 The Council Tax Base and surplus / deficit on Collection Funds have now been received from the five District Councils within Tyne and Wear. The Council Tax Base for 2015/16 is 271,577 and means that council tax precept income will increase by around £330k as a result. There is also a net surplus on the Collection Fund (Council Tax) for 2014/15 of £141,283 which also improves the financing of the 2015/16 budget.
- 4.3 The Authority's local share of business rates income as notified by the five District Councils within Tyne and Wear for 2015/2016 totals £4,224,500. This compares to the Government assessed business rates income total of £4,128,814.
- 4.4 The Authority has a cost pressure of £83,317 with regard to their share of the projected net deficit position on the business rates element of the Collection Fund from each of its district councils for 2014/2015.
- 4.5 An additional factor to take into account is the actual amount the Authority will receive in 2015/2016 to compensate for the gap between the business rates capped at of 2% and actual RPI (the SFA adjustment). In the Settlement the grant was estimated at £205,759 to fund both gaps of 1.2% in 2014/2015 and 0.3% in 2015/2016. Estimates for 2015/2016 have been returned by each

district and the Authority is estimated to receive £333,679 based on the returns from each Council.

- 4.6 It is now clear that the 2015/16 updated budget position has improved to that set out in December and is mainly due to a combination of implementing planned IRMP actions, making further budget efficiency savings and, as set out above, the fact that both council tax income and business rate share income have also seen increases over and above those projected by the government in their Revenue Spending Power estimates. This means that income is higher than that originally projected and as a result these features have reduced the anticipated budget gap for 2015/2016.
- 4.7 The net budget requirement for 2015/2016 has been established at £49,652,920 with a Council Tax Freeze or £49,806,290 with a 1.99% increase in Council Tax.

5. PRECEPT OPTIONS

- 5.1 Two options are set out for members to consider in respect of the 2015/2016 precept. This consists of setting a precept that either accepts the Freeze Grant for 2015/2016 or to increase the Precept by 1.99% (within the capping criteria and which recognises the wider medium term budget gap projected for the Authority reported in December) and which has been further updated in the MTFS set out in Appendix E.
- 5.2 The Localism Act 2011 changed some of the details governing the calculation of the Council Tax Precept and the Authority has to set out its Council Tax Requirement annually, further details of which are set out in Section 5 of Appendix 1. The necessary regulatory recommendations for members to formally set the precept for 2015/2016 for either option are detailed within Appendix 2a (Freeze) and Appendix 2b (Increase) to this report.

6. RECOMMENDATIONS

- 6.1 The Authority is therefore requested to:
- (a) Note the revised estimate for 2014/2015, as summarised at Appendix A;
 - (b) Approve the proposed Revenue Estimates for 2015/2016, as summarised at Appendix A;
 - (c) Note the Projected Pensions Account 2015/2016 detailed at Appendix B;
 - (d) Note the associated risks and their mitigation as set out in Appendix

C; and,

- (e) Approve the updated position on the General Reserves and Earmarked Reserves (Appendix D);
 - (f) Note the updated Medium Term Financial Strategy Statement for 2015/2016 to 2017/2018 detailed at Appendix E;
 - (g) Note the Council Tax base of 271,577 (known as Item T) for the year 2015/2016, as notified by the billing authorities within Tyne and Wear under the new regulations;
- 6.2 Note further that, based on the preferred precept option for 2015/2016, Members must approve the appropriate recommendations as set out in either Appendix 2a (Freeze) or Appendix 2b (Increase).

DETAILED REVENUE BUDGET 2015/2016

1. BUDGET CONSULTATION

- 1.1 In compliance with the Authority's statutory obligations, Members and Officers met with representatives of the North East Chamber of Commerce at the Brigade Headquarters on 10th February 2015.
- 1.2 The notes of the meeting and any response of the Chamber of Commerce will be tabled at the meeting of the Authority.
- 1.3 It is recommended that Members take into account the views of those consulted as they consider the Budget proposals and the Medium Term Financial Strategy position.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2015/2016

- 2.1 The Final Local Government Finance Settlement for 2015/2016 was announced on 3rd February 2015 and as expected there were no changes from the Provisional Settlement that was presented to Members at the meeting on 19th January 2015.
- 2.2 Based on the Government's Settlement, the key elements for 2015/2016 are summarised below:
 - A reduction in the Government's Revenue Spending Power of £2.486m or 4.7% to £50.194m compared to an adjusted £52.680m in 2014/2015. This is made up of a number of components, as detailed in the Provisional Local Government Finance Settlement 2015/2016 reported to members in January.
 - The bulk of the cut is in respect of a reduction in the Settlement Funding Assessment (SFA) of £2.798m or 8.78% in 2015/2016.
 - A decrease of £0.081m in other revenue grants (New Dimensions and Fire Link initiatives).
 - Provision of Council Tax Freeze Grant for 2015/2016 of £0.243m.
 - An additional grant of £0.206m to fund both the 2014/15 gap of 1.2% and the 2015/16 gap of 0.3% between the capped business rates and the applicable actual RPI. This is referred to as the SFA Adjustment by the government and helps offset the SFA cut each year.
- 2.3 It is recommended that Members note the Local Government Finance Settlement.

3. REVENUE BUDGET 2015/2016

- 3.1 The 2015/2016 Revenue Budget has been set taking full account of the significant funding reductions facing the Authority this year and the ongoing implications anticipated for future years.
- 3.2 The Chief Fire Officer has also undertaken a base budget review of all delegated budgets. Whilst the overall intention is to ensure that resources are directed to address key strategic priorities as informed by the Strategic Plan, this review has identified efficiency savings on delegated budgets which have been built in to the Medium Term Financial Strategy (MTFS).
- 3.3 Appendix A shows the summary position for the Authority and the detailed budgets. The proposed revenue budget for 2015/2016 totals £49.653million for a Council Tax Freeze or £49.806million for a 1.99% increase in the Council Tax precept. The presentation of the budget information is determined by the requirements of the Service Reporting Code of Practice as it defines best professional practice in terms of financial reporting.
- 3.4 The proposed budget makes provision for the following:

Spending Priorities

Integrated Risk Management Plans

- 3.7 The Authority has now completed the actions from the previous 2010-2013 Integrated Risk Management Plan (IRMP) reviews and final savings of £0.549m have been achieved in 2014/2015. The ongoing savings are reflected in the base budget for 2015/16.
- 3.8 A number of reviews agreed in the IRMP 2013-2016 have been progressed during 2014/2015. The first phase of the Response Review is now complete, generating a total of £0.966m of savings for the Authority in 2014/15, with a further saving of £0.313m in 2015/2016. Further phasing in of the Response Model Review will generate estimated savings of £3.338m over the next three years of the MTFS which is anticipated to save £5.450m in total once fully implemented in 2018/2019.
- 3.9 In addition, £0.463m will be achieved from the Catering Review, and £0.116m from the Cleaning Review and moving Control in house. These have both been built in to the budget position for 2015/2016.
- 3.10 A further three reviews from the IRMP 2013-2016 are still to be implemented by the Authority which will help to address the continuing reductions in government funding. However, depending on the savings realised, further IRMP actions may need to be developed if government funding reductions

continue at the same, or an increased pace, up until 2019/2020, which both main political parties have indicated may be the case.

- 3.11 The revised budget gap into 2017/2018 shows that the Authority's decision to earmark reserves to help support the budget over the medium term, until it can implement its IRMP actions, is both necessary on a continuing basis and is considered prudent.

National and Regional Initiatives

3.12 **Firelink Project**

Following installation of the Firelink radio system, the Government continues to meet some of the costs of the new system. However it is expected that the ongoing revenue costs will place an additional net overall burden on FRAs. This has not been quantified at this stage as the final stage of the project is yet to be completed. For budget purposes, prudent estimates of both cost and grant income have been assumed, and the position will continue to be monitored to ensure that there is no adverse impact for this Authority.

Service Pressures

- 3.13 A number of spending pressures were identified within the MTFs and have been incorporated into the final revenue budget for 2015/2016. These include:
- Pay – the agreed pay award of 2.2% for non-uniformed staff and a prudent provision of 1% for uniformed staff have been made. This will be reviewed subject to the outcome of any national pay agreements;
 - Pensions – the impact of the Triennial Actuarial review of the Local Government Pension Scheme, the Pensions Act 2014 (abolition of NI contracted out rate) and proposed government changes to the Firefighter Pension Scheme have been factored in to the budget for 2015/2016 and will be reviewed as developments progress;
 - General price increases – provision has been provided for general price inflation of 2%;
 - Energy prices – prudent provision has been included for continued annual increases of 10% in charges for gas and electricity;
 - Ill health pension awards – provision has been made for limited future ill health retirements and increased pension injury awards in line with pension price increases;
 - Insurances – as advised by Insurance, an increase of 15% on the insurer's rates has been provided for the employees liability;
 - Interest on Balances – preparation has been made on the basis that the comparatively low interest rate will continue into the foreseeable future.

Capital Programme

- 3.14 The 2015/2016 Capital Programme is presented for Members attention

elsewhere on today's Agenda. It is proposed to fund the Programme through a combination of previous allocations of Capital Grant, remaining Specific Capital Grant for Day Crewing, Transformation Fund Grant, contributions from the Development Reserve and use of other earmarked capital related reserves.

Revenue Implications of the Capital Programme

- 3.15 The Capital Programme has been reviewed to identify any revenue implications. These are considered minimal and can be contained within the Revenue Budget as presented.
- 3.16 The Authority's building programme is in progress and has been re-profiled into the Capital Programme for 2015/2016. The works are being funded from the Day Crewing Specific Capital Grant and the Development Reserve. It is possible that there may be revenue implications arising from these developments which will become clearer as the programme progresses but at this stage, the planning assumption is that the revenue implications will, in overall terms, be at least resource neutral, with potential future revenue savings once implemented.

General Balances and Earmarked Reserves

General Balances Policy

- 3.17 In considering a prudent minimum level of balances, the Authority considers:
- known commitments against balances in future years;
 - volatile elements of service delivery, which make accurate prediction of expenditure more difficult;
 - financial risks faced by the Authority and the measures in place to mitigate them or meet them financially, as outlined in the Financial Risk Analysis at Appendix C.
- 3.18 Taking account of the level of risk within this Authority, which has increased under the new government funding regime, the retention of a minimum level of general fund balances of up to £4 million is now considered prudent after taking into consideration the following:
- the impact of future government funding reductions on the Fire and Rescue Authority;
 - a significant modernisation programme which brings with it both financial and change management risks;
 - the uncertainty regarding price and pay inflation, including energy prices and the impact of potential further changes in base rates;
 - uncertainty regarding the future funding for national projects;
 - uncertainty of the impact of the localised council tax benefit scheme on the

- amount of precept income and also the risks now associated with the amount of business rates allocated from its constituent councils;
- the ongoing firefighter strike action;
 - the Financial Risk Analysis included at Appendix C.

Minimum Level of General Fund Balances

- 3.19 The estimated balance of the General Fund as at 31st March 2015 and 31st March 2016 remains at £3.872m. Based on the Financial Risk Analysis attached to this report, a level of uncommitted general balances of between £3.5m to £4.0m is considered reasonable. The current balance represents almost 7.8% of the proposed revenue budget for 2015/2016 and is within the minimum range specified.

Earmarked Reserves

- 3.20 The Authority retains an appropriate level of earmarked reserves as determined by the Authority's MTFs and Risk Analysis. A Statement of the Estimated Earmarked Reserves and Provisions and their planned usage in 2015/2016 is provided at Appendix D for information.
- 3.21 The reserves have been subject to a thorough review by senior management of the Authority, along with the Finance Officer, to ensure they are robust, appropriate and will meet the assessed financial risks of the Authority. It is proposed that a planned contribution from earmarked reserves is necessary to meet the assessed budget gap in 2016/2017 and 2017/2018 while IRMP actions are progressed and savings realised.
- 3.22 It is recommended that the Authority considers the above and approves the proposed revenue estimates for the year ended 31st March 2016 as detailed in Appendix A.

4. MEDIUM TERM OUTLOOK

- 4.1 An updated Medium Term Financial Strategy Statement is set out at Appendix E. This has been prepared taking account of all available supporting Strategies and Plans and the following main areas:
- National Economic Context – announcements regarding future funding, precept expectations and national economic prospects and projects;
 - Local Funding Position:
 - the budget decisions made in finalising the 2015/2016 Revenue Budget;
 - the position and policies in relation to General Fund Balances and Major Reserves;

- Spending Pressures and Commitments;
- Revenue implications associated with the implementation of the IRMP;
- Revenue implications of the Capital Programme.

4.2 The projected budgets in future years are based on a series of assumptions and there is a large degree of uncertainty regarding a number of factors, including:

- the level of government funding / grant support beyond 2015/2016;
- any changes to specific grants, e.g. transfer to general grant funding or cessation;
- the level of pay awards;
- the level of inflation;
- the impact of the national economy;
- the impact of national projects;
- the level of the Council Tax Base in each district which will continue to be affected by the current economic position and the localisation of council tax benefit arrangements introduced from 2013/2014;
- the level of Council Tax Collection Fund deficits that create a budget pressure to the Fire Authority;
- the impact of the business rates retention scheme and the level of business rates income receivable from each district, and
- the level of Business Rates Collection Fund deficits that create a budget pressure to the Fire Authority.

4.3 There are a range of options to be explored and, if necessary, implemented, to meet the demands placed on the budget, including:

- reducing the base budget, through the generation of further efficiency savings, implementing alternative financing options, or reducing services on a risk assessed basis;
- utilisation of balances to meet cost pressures and through other means to offset costs;
- generating additional income, including maximising resources through external funding streams;
- working with other Fire and Rescue Authorities to increase collaboration, co-operation and agree actions that will lead to improvements in efficiency and generate cost savings; and
- identifying areas of priority for additional investment if resources are available to achieve ongoing revenue savings.

4.4 In accordance with Part 2 of the Local Government Act 2003, there is a requirement for the Finance Officer to report upon the robustness of the estimates and the minimum level of reserves. In making the statement, the Finance Officer relies on information provided to her by other officers of the Authority, as part of the budget setting process. This process involves

reasonable checks and other verification, which are undertaken in accordance with the overall system of internal control to validate the information provided.

4.5 A full risk analysis has been undertaken on the level of general balances and reserves held by the Authority. Further information is given in Appendix D regarding the adequacy of the reserves.

4.6 The Finance Officer states:

'Based upon the information used in determining this Revenue Budget 2015/2016 report, including specifically:

- the Risk Analysis set out at Appendix C;
- the Earmarked Reserves and Provisions set out at Appendix D, and
- the updated Medium Term Financial Strategy summary set out at Appendix E.

the Revenue Budget is considered robust and the level of reserves is considered to be sufficient for 2015/2016 after an assessment of the financial risks faced by the Authority has been taken into account.'

4.7 It is recommended that Members note the updated Medium Term Financial Strategy Statement and the Finance Officer's comments on the robustness of the estimates, the adequacy of reserves and the risks in the budget.

5. FIRE AUTHORITY PRECEPT

Council Tax Options

5.1 The Localism Act 2011 provides for the provision of referendums to allow a veto of 'excessive' council tax increases. This effectively places a limit on council tax increases and if authorities exceed the government limits, the public will be able to vote to agree or veto any considered 'excessive' increase.

5.2 The potential additional costs of a referendum and rebilling would be significant. Therefore, any proposal to increase council tax above the Government's principles would need careful consideration as, regardless of the outcome of the vote, there would be costs which could, in effect, negate the benefits from the proposed council tax increase.

5.3 The Government has retained the threshold council tax limit to hold a referendum at 2% in 2015/2016. This measure however still reduces the flexibility available to the Authority in considering the options available to fund its budget. In addition, the Government has confirmed that Council Tax

Freeze grant funding for 2015/2016 for authorities that freeze council tax (based on a 1% council tax increase) will be made available. For Tyne and Wear Fire and Rescue Authority this would be worth approximately £0.243m if it was accepted.

- 5.4 The settlement also confirms inclusion of previous years' Council Tax Freeze grant in the funding base for the Authority. This includes the fifth and final year funding of the 2011/2012 freeze grant of £0.593m (provided to compensate authorities for not increasing their council tax in 2011/2012), and the 2014/2015 freeze grant funding of £0.241m.
- 5.5 Since the Draft Revenue Budget for 2015/2016 was presented to Members in December, final adjustments have been made to budgets, which include a significant budget saving to better reflect the changing profile of fire fighters retiring / leaving the Authority, and in addition, figures have been received in relation to Council Tax Bases and the Collection Fund positions in respect of both council tax and business rates from each of the Authority's billing authorities.
- 5.6 At this point, Members have yet to consider the precept for 2015/2016 and two options are available to them, assuming compliance with council tax 'referendum' regulations. The first option is to accept the Freeze Grant for 2015/16 and the alternative is to increase Council Tax by 1.99%.
- 5.7 Calculation of the 2015/2016 Budget, Precept and the required resolutions to be agreed by members for each option are detailed separately below depending on member's views. It should be noted at this stage that a precept increase would generate £0.396m, which is £0.153m more income than the freeze grant of £0.243m (any precept increases would also be embedded into council tax precept income in future years).

Calculation of the Precept (with a Council Tax Freeze)

- 5.7.1 The calculation of the Council Tax Requirement (precept) takes into account the Authority's Net Revenue Budget, Government funding and the local share of business rates. Allowance also has to be made for the Authority's share of any surplus or deficit on the five District Council's council tax collection fund and business rates collection fund. **The calculation and necessary statutory recommendations are set out in detail in Appendix 2a.**

Calculation of the Precept (with a 1.99% increase)

- 5.7.2 The calculation of the Council Tax Requirement (precept) takes into account the Authority's Net Revenue Budget, Government funding and the local share of business rates. Allowance also has to be made for the Authority's share of any surplus or deficit on the five District Council's council tax collection fund and business rates collection fund. **The calculation and necessary statutory recommendations are set out in detail in Appendix 2b.**