

**MEETING: 21<sup>st</sup> OCTOBER 2013**

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**SUBJECT: BUDGET PLANNING FRAMEWORK 2014/2015**

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**JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE FINANCE OFFICER**

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**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 2014/2015. The report sets out the headlines and context for the Medium Term Financial Strategy 2014/2015 to 2016/2017 which will be formally considered in due course.

**2 Description of Decision**

2.1 Members are recommended:

- To note the contents of the report and the increased estimated funding gap based on the most up to date government funding releases;
- To agree the proposed Budget Planning Framework summarised at Section 9.2 of the report which will guide the preparation of the Revenue Budget for 2014/2015;
- to note that the full Medium Term Financial Strategy 2014/2015 to 2016/2017 will be presented to the Authority in February 2014.

**3 National Economic Context**

3.1 Impact of the Deficit Reduction Plan

The Government is continuing with its deficit reduction plan and announced a further £10bn reduction to department budgets in the Spending Round 2013, in addition to a £1.5bn cut announced in the Budget 2013. The Government indicated this was as a result of lower growth and lower tax revenues than anticipated.

Recent data has provided encouraging signs for the economy with Bank of England growth forecasts increasing for 2013 (from 1.2% to 1.4%) and for 2014 (from 1.7% to 2.5%). However, there is unlikely to be any reversal to Government spending plans which now show a fall in real terms until 2017/2018, at the same rate as that over the Spending Review 2010 period.

In fact, at the recent Conservative Conference, the Chancellor signalled that austerity measures may continue until 2020 as he set out plans for a new fiscal mandate that would build an overall budget surplus by the end of the next parliament, without the need to raise taxation.

### 3.2 Inflation

The Consumer Price Index (CPI) has been above the Government's target level of 2% since December 2009, placing additional pressures on the Authority's finances.

CPI inflation reduced from 2.9% in June to 2.8% in July and the Bank of England predict that inflation will continue to fall and that they will meet their 2% inflation target within two 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 announced forward guidance on their future plans in their Quarterly Inflation report (August 2013), stating that any increase in the current Base Rate would only be considered once the jobless rate has fallen to 7% or below. They forecast that an increase is therefore unlikely before the end of December 2016. This policy will be reconsidered if Consumer Price Index (CPI) inflation is judged likely to be at or above 2.5% over an 18 month to two year horizon.

A number of forecasters think that increased growth and employment creation will lead to Base Rates increasing before December 2016. This position will continue to be monitored and reviewed and the impact taken into account in budget planning.

## 4 Government Funding - 2014/2015 and 2015/2016

- 4.1 In January 2013 the Government provided indicative settlement figures for 2014/2015 alongside the final funding settlement for 2013/2014. However in March 2013 the Government announced a further 1% cut in funding.
- 4.2 On 26th June 2013 the Government announced the outcome of its Spending Review 2013. This set out a 10% real term cut in overall funding for local government from the DCLG for 2015/2016. This represented a 7.5% reduction to the fire service at this stage. The Government also stated that, taking account of all sources of local government funding, the spending round set out an overall local government spending reduction of 2.3%.
- 4.3 On 25th July 2013 the Department for Communities and Local Government (DCLG) published three consultation papers:
  - Local Government Finance Settlement for 2014/2015 and 2015/2016 (response deadline 2nd October 2013);
  - New Homes Bonus (NHB) (response deadline 19th September 2013);
  - Use of capital receipts to fund transformation costs (response deadline 24th September 2013).
- 4.4 At the same time Government published exemplifications for each authority reflecting the financial impact of:

- the extra 1% government cut in funding for 2014/2015 announced in their March 2013 budget;
- additional proposed holdbacks (£180m) and top slicing (£800m) of funding for 2015/2016; and
- a total £3.1bn cut in core funding in 2015/2016.

4.5 The national implications and the Authority's responses to the consultation documents were reported and agreed at its last meeting held on 16th September 2013. The implications for the Authority are set out below.

#### 4.6 **Impact on funding for the Authority**

4.6.1 In overall terms the implications are that potential reductions in funding between 2013/2014 and 2016/2017 could be in the region of £7.5m rather than £5.1m, as previously included in planning assumptions. Also the government has indicated similar levels of funding reductions may be in prospect to, at least 2017/2018, in order to meet their target to eliminate the structural deficit. The detail is set out below:

##### 4.6.2 Settlement Funding Assessment

Based on the latest Settlement Funding Assessment (SFA - includes Revenue Support Grant and Business Rates baseline funding) exemplification set out by DCLG as part of the consultation documents, Tyne and Wear Fire and Rescue Authority will be required to make £7.5m of reductions over the next three years 2014/2015 (£2.3m), 2015/2016 (£2.4m) and 2016/2017 (£2.8m).

This is before taking into account unavoidable spending pressures which the Authority must meet.

Over the three year period the reduction is higher, (by approximately £2.4m), than was expected and provided for within the MTFs, following the SR2013 Government announcement.

##### 4.6.3 Revenue Spending Power

As part of the indicative settlement figures for 2014/2015, provided by Government in January 2013, indicative grant funding levels were provided in respect of a number of other specific grants, which along with the SFA make up the Government's 'Revenue Spending Power' calculation.

While the Government has provided exemplification figures to show the financial impact in 2014/2015 on SFA of the additional cuts and holdbacks announced since January, they have not provided any further updates to other grants included within the Revenue Spending Power calculation. At this stage therefore, it is assumed the levels of funding in respect of other grants within the Revenue Spending Power provided in the indicative settlement for 2014/2015 will be delivered.

At the time of the Spending Review 2013 the Government stated that, taking account of all sources of local government funding, the Spending Round set out an overall Local Government funding reduction of 2.3% for 2015/2016. At this stage Government has not provided any details of individual grant allocations for 2015/2016 which make up the Revenue Spending Power calculation, other than that for Revenue Support Grant (RSG) as set out in the latest July exemplifications. It is therefore not currently possible to identify how this significantly lower level of reduction will be delivered, or how applicable this is to the Fire Service, which currently shows an average reduction in funding of 8.5% equivalent to a real terms cut of 10.3% in 2015/2016.

There is the potential that the Authority will receive some allocation from the top-sliced funding streams referred to in paragraph 4.4. However at this stage it is not possible to quantify the potential amounts, although these are thought to be minimal as most of the funding streams are not relevant to the Fire Service.

## **5 Summary Outlook**

- 5.1 Given the changes in the economic position and Government announcements regarding further funding reductions as part of the Spending Round, the outlook for local government funding continues to be bleak and subject to both unprecedented reductions and change up until 2017/2018 at least, with the prospect of now continuing up until 2020.
- 5.2 Final funding allocations will not be made available until the government releases its detailed information as part of the local government finance settlement for 2014/2015 in December, when it is hoped that indicative allocations will also be made available for 2015/2016 to help with longer term financial planning. It is proposed to progress with planning based on the reductions in funding set out at 4.6.2.
- 5.3 There is no indication of funding allocations beyond 2015/2016. However it seems prudent to assume a similar level of reduction in SFA funding as is to be experienced for 2015/2016, of around 8% for the fire service.

## **6 Local Income Position**

### **6.1 Council Tax - Rate Increases**

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.

As part of the Spending Review 2013 Government announced that a referendum will apply for proposed increases in Council Tax Precept above 2%.

Government indicated as part of the Spending Review that Council Tax Freeze Grant would be made available for 2014/2015 and 2015/2016 at a rate of 1%. As the funding is not of a permanent nature, any use of the grant to support on-

going revenue expenditure will require alternative funding to be identified in the following years should the Authority decide to access and accept the grant.

Consideration as to the affordability of this approach, however, will need to be taken once firmer information on funding levels for 2014/2015 and 2015/2016 is made available.

## 6.2 Council Tax and Business Rate - Growth in Base

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).

Processes are in place to ensure that the position in relation to both Business Rates and Council Tax future growth in bases and levels of collection are understood from its constituent authorities.

The position will be kept under review and will be reflected in the Budget Planning Framework as appropriate.

## 6.3 Reserves and Balances

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.

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.

## 7 Spending Pressures and Commitments

It is proposed to take into account the following spending commitments in the Budget Planning Framework for 2014/2015, noting that at this stage in a number of cases specific cost detail require finalisation and will be subject to review and refinement throughout the budget setting process:

### 7.1 Pay and Pensions

#### 7.1.1 Pay

The Government has indicated a limit on public sector pay of a 1.0% pay increase. For planning purposes a prudent provision has been built into the MTFS from 2014/2015.



### 7.1.2 Pensions

#### Local Government Pension Scheme

The Actuarial review of the Local Government Pension Scheme is currently underway, the results of which will impact from April 2014. The Government agreed to implement the recommendations from the Hutton Review and the cost implications of the new scheme will be reflected in the actuarial review. Indicative information will not be available until late 2013, although a spending pressure is anticipated.

#### Firefighters Pension Scheme

As proposed government changes to the Scheme 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 2014/15 and in the MTFS as appropriate.

### 7.1.3 National Insurance

The Pensions Bill, which is expected to receive Royal Assent in spring 2014, contains provisions to reform the state pension system, introducing a single tier pension as a result. As part of these 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 Bill provides no method to alleviate the additional financial burden, although the LGA are seeking to work with Government to resolve this impact. At this stage it is prudent to reflect the impact for 2016/2017 within the medium term position.

### 7.2 Energy Prices

Energy and vehicle fuel prices continue to be particularly 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, it is also important to note 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.

### 7.3 Capital Financing

No prudential borrowing has been included within the medium term financial position at this stage, but the position will be continuously reviewed to ensure that the future use of resources reflects best value and can be adapted to enable strategic priorities of the Authority to proceed in the future.

## 8 Summary Resource, Pressures and Commitments Position

- 8.1 The total reduction in resources and spending pressures represents the estimated gross funding gap. However at this stage there is significant uncertainty in relation to:

- The general economic climate and public sector finances (direct connectivity between the economy and public finances);
- Settlement confirmation for 2014/2015, probably not available until early December;
- The level of government funding reductions in 2015/2016, how the Government will respond to the outcome of the current consultations; and
- Any other significant changes within the system.

8.2 The level of funding reduction, as currently presented, represents a very significant challenge given the already compound impact of reductions since 2010 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 2013-2018 period.

8.3 Taking government funding reductions set out in 4.6.1 and spending pressures outlined in 7 the table below sets out the estimated funding shortfalls to be addressed by the Authority, which were built into the last MTFS reported to members in March 2013 and reflected savings already anticipated from the outstanding Integrated Risk Management Plan (IRMP) actions of £4.209m in 2013/2014 and an indicative amount of £1.178m in 2014/2015.

<b>MTFS 2013/2014 to 2015/2016</b>	<b>2013/14 Actual</b>	<b>2014/15 Indicative</b>	<b>2015/16 Indicative</b>	<b>2016/17 Projected</b>	<b>Total</b>
March 2013 Assumptions - Government cuts	£3.154m	£2.266m	£2.066m	£0.785m	£8.271m
Spending pressures	£1.055m	£0.531m	£0.538m	£0.548m	£2.672m
<b>Total</b>	<b>£4.209m</b>	<b>£2.797m</b>	<b>£2.604m</b>	<b>£1.333m</b>	<b>£10.943m</b>
Less IRMP savings	(£4.209m)	(£1.178m)	?	?	(£5.387m)
<b>Gap</b>	<b>Nil</b>	<b>£1.619m</b>	<b>£2.604m</b>	<b>£1.333m</b>	<b>£5.556m</b>

8.4 The above table has now been updated to show the likely estimated funding shortfalls that need to be addressed by the Authority, after taking into account the government's latest further funding reductions released in the July 2013 consultations.

<b>MTFS 2013/2014 to 2015/2016</b>	<b>2013/14 Actual</b>	<b>2014/15 Indicative</b>	<b>2015/16 Indicative</b>	<b>2016/17 Projected</b>	<b>Total</b>
October SR13 Assumptions - Government cuts	£3.154m	£2.314m	£2.442m	£2.765m	£10.675m
Spending pressures	£1.055m	£0.531m	£0.538m	£0.548m	£2.672m
<b>Total</b>	<b>£4.209m</b>	<b>£2.845m</b>	<b>£2.980m</b>	<b>£3.313m</b>	<b>£13.347m</b>
Less IRMP savings	(£4.209m)	(£1.178m)	?	?	(£5.387m)
<b>Amended Gap</b>	<b>Nil</b>	<b>£1.667m</b>	<b>£2.980m</b>	<b>£3.313m</b>	<b>£7.960m</b>

The resources and spending pressures position for the next three years takes into account all of the issues set out in paragraphs 4 to 7 above. The total amount the authority is now anticipating it will need to address has increased over the 4 year period by roughly £2.4m from £10.9m to £13.3m. IRMP savings

are currently estimated to meet approximately £5.4m of this figure which leaves a revised gap or shortfall of almost £8m.

Clearly this forecast and the savings requirement for 2014/15 and beyond remains volatile due to the uncertainty surrounding the settlement and a number of other key financial issues, which will become available in the next few months, and will be reflected in a revised MTFS to be presented to members in February 2014.

## **9 Integrated Risk Management Plan (IRMP) / Proposed Budget Planning Framework**

### **9.1 Integrated Risk Management Plan – additional actions**

- 9.1.1 The Authority has continued to develop its approach to meeting community needs by transforming services through key reviews and actions from its IRMP, which has delivered significant efficiency savings which were planned to coincide and address the cuts in government funding as set out in the SR10.
- 9.1.2 In October 2012 the Authority consulted on some further additional actions to the existing IRMP covering the period 2013/2016, which recognised two factors. The first was that most of the reviews and actions from the current plan had almost been completed and although these would still deliver further significant savings, in both the current year and in 2014/2015, more would be needed to address savings required in future years. The second was the fact that the government has consistently extended the austerity measures on public sector spending (2014/15 originally) which is now in place up until 2017/2018, at least, and which will in turn require further sustained actions to meet the prolonged government funding cuts.

There were five new actions agreed and in summary included:

- Review the fire cover response model
- Review Diversionary activities
- Build on staffing flexibility
- Review Cleaning and Catering
- Consider the business case for setting up a trading company

The first two of these actions feature on today's agenda.

### **9.2 Proposed Budget Planning Framework**

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

- Budget planning to be based on high level position outlined at paragraph 8 and updated in light of the Local Government Finance Settlement expected in December;
- Provision for spending commitments to be included at this stage on the basis set out at section 7 and kept under review;



- Budgets to be prepared on the basis that all spending pressures not specifically identified above as commitments 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 to be updated as necessary throughout the budget process.

