TYNE & WEAR FIRE AND RESCUE AUTHORITY

MEETING: 6th NOVEMBER 2017 **Item 7**

SUBJECT: BUDGET PLANNING FRAMEWORK 2018/2019

JOINT REPORT OF THE CHIEF FIRE OFFICER AND CHIEF EXECUTIVE (CLERK TO THE AUTHORITY) AND THE STRATGEIC FINANCE MANAGER

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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 specifically the Budget Planning Framework for 2018/2019;
- Provides an update on the current Medium Term Financial Strategy and sets out the headlines and context for the Medium Term Financial Strategy 2018/2019 to 2021/2022 which will be formally considered later in the budget cycle; and
- Provides an update on performance against the four year Efficiency Plan 2016/2017 to 2019/2020.

2 Medium Term Financial Strategy 2017/2018 to 2020/2021

2.1 The Medium Term Financial Strategy 2017/2018 to 2020/2021 was approved by Authority in February 2017 as part of the budget setting process. The plan is continually updated to reflect changing circumstances and latest known information. The Medium Term Financial Strategy will be kept under review throughout the budget process and updated as required, with a full Medium Term Financial Strategy 2018/2019 to 2021/2022 presented to Authority in February 2018.

2.2 The table below summarises the current Medium Term Financial Strategy:

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Government Cuts	1.961	1.559	0.439	0.514
Spending Pressures	2.695	1.544	1.694	1.258
Total	**4.656**	**3.103**	**2.133**	**1.772**
Less IRMP estimated savings	(2.238)	(0.516)	(1.489)	0
Less Council Tax and Business Rate growth*	(0.977)	(0.520)	(0.674)	(0.695)
Less budget efficiencies	(1.441)	(0.126)	(0.125)	(0.130)
Funding Gap in year	**0.000**	**1.941**	**(0.155)**	**0.947**
Cumulative Funding Gap	**0.000**	**1.941**	**1.786**	**2.733**

**Assumptions in table at this stage assume a 1.99% increase in the precept and also additionally 1% growth in each year for both council tax and business rates*

Based on the best information available at this time, the Authority is projected to be facing a cumulative funding shortfall of £2.733m by the end of 2020/21 assuming all remaining IRMP (2014/17) actions are achieved. The amount of the Budget deficit within the 4 Year Efficiency Plan period which ends 2019/20 remains as originally estimated at £1.8m. This position represents a significant challenge to the Authority given the already compounded impact of the significant government grant funding reductions and increased cost pressures it has incurred since 2010/2011. Over £23.0m of budget reductions have already been made to the base budget which means that the current budget gap identified is becoming increasingly more difficult to address. Although further budget efficiencies and IRMP actions are being developed under the proposed IRMP 2017/20 to meet the projected gap, it should be noted that a temporary use of reserves may be necessary in the medium term until permanent budget reductions are achieved. This practice has served the Authority well over previous financial years.

2.3 Key points to note which impact on Budget Planning for 2018/2019 and beyond are set out in the following sections of the report, however it is important to note that the Chancellors first Autumn Budget may have further impacts upon the budget planning process. This will be kept under review with any significant matters affecting the Budget 2018/19 being reported to members as appropriate.

3 National Economic Context to the 2018/2019 Budget

3.1 The government's aim to achieve a balanced position on the national economy with no underlying deficit was removed from Government policy in the Autumn Statement 2016, with the aim now being that this would be delivered 'as soon as reasonably practicable' in the next parliament. This strategy was confirmed in the March 2017 Spring Budget with debt expecting to peak at 88.8% of GDP in 2017/2018 (budget deficit of £58.3bn) before falling to 79.8% of GDP in 2021/2022 (budget deficit of £16.8bn).

3.2 The subsequent General Election on 8th June 2017 created further uncertainty for local government funding. The Government has not introduced the Local Government Finance Bill in the Queen's Speech, which sets out a framework to allow local government in England to keep all the £26 billion in business rates it raises locally each year.

3.3 The UK's exit from the European Union will potentially have a significant impact on local government, and local government is lobbying for guarantees to protect the £8.4 billion provided through the EU in local regeneration and regional funds.

3.4 Since the March 2017 Spring Budget the Bank of England (BoE) has revised its growth forecasts for the UK economy with latest predictions on growth now down to 1.7% in 2017, 1.6% in 2018 and 1.8% in 2019.

3.5 CPI inflation reduced from 2.7% in May 2017 to 2.6% in June 2017 with the BoE predicting that inflation will peak to around 3.0% in October 2017 (it was 3.0% for September 2017) and to remain around 2.75% early next year before gradually falling to around 2.2% by the end of 2019. This means the Authority is facing higher than expected costs as government funding was predicated on a 2% inflation rate over the 4 year period to 2019/20.

3.6 The BoE cut interest rates on 4th August 2016 for the first time since 2009, from 0.5% to a new historical low of 0.25%. During the two-year period 2017 to 2019, when the UK is negotiating the terms for withdrawal from the EU, it is considered likely that the Monetary Policy Committee will not do anything to dampen growth prospects through raising the Base Rate. However if inflation continues to grow then there is a risk that interest rates could be reviewed with some economists predicting a rise possibly as early as next month. The position in assessing interest rate forecasts therefore remains very difficult with many influences weighing upon the UK economy.

3.7 The Government is clearly intending to direct resources to the Brexit process and it will be interesting to see what impact the improving economy and costs of Brexit may have on public sector services in the Chancellor's first Autumn Budget on 22nd November 2017.

4 Government Core Funding

4.1 The Authority accepted the four year funding settlement offer made by government which sets out the levels of Revenue Support Grant (RSG) that the Authority will receive up to 2019/2020. The offer is limited to the level of indicative funding provided through this funding source only.

4.2 Based on the indicative budget allocations set out in the 2017/2018 settlement, Government funding is forecast to reduce overall by £1.559m in 2018/2019 compared to the previous year. Of this, Revenue Support Grant (forecast to be £9.620m), accounts for most of this reduction (i.e. £1.278m or -13%). Top up grant and the business rates multiplier are anticipated to increase in line with inflation (CPI). The government's figures also assume growth in council tax (both in the tax base and the precept). These estimates however fail to recognise local circumstances and any adverse impacts of the introduction of Universal Credit which will come fully into force across the region in 2018. This means that there is very limited flexibility in the funding available to the Authority that is not already included in the government's Core Spending Power forecasts unless Government review their referendum limits for the fire service and allow higher increases in Council Tax.

5 Local Income

5.1 Council Tax

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, the public will be able

to vote to agree or veto any increase considered 'excessive'. For 2017/2018 a referendum requirement applied for proposed increases in Council Tax above 1.99%. Indicative data released by government through to 2020 assumes authorities will apply a council tax increase within the 1.99% referendum limit.

The current Medium Term Financial Strategy has therefore assumed a 1.99% increase in its council tax precept for each year to take account of these government assumptions. However, a decision on the application of this option will need to be made as part of the budget planning process, once all other funding factors are understood from the Finance Settlement. Should the Authority be granted flexibility around the level of precept increase, options will be considered to maximise income from this funding stream. Members will be consulted and decisions will be made as the budget is set.

The Local Council Tax Support Scheme was introduced from April 2013 and is in its fifth year of operation. The Authority's Council Tax income could be affected by the individual schemes agreed by each of its district councils and therefore any proposed changes to the current schemes in operation will need to be assessed for any impact on Council Tax income for 2018/2019, along with any adverse impacts from the introduction of Universal Credit across the region.

5.2 Business Rates

Under the current Business Rates Retention Scheme, the Authority is allocated locally 2% of the increased business rates income arising from growth in the Local Business Rates base from its constituent authorities (however equally it shares the risk of any under achievement of income targets).

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 significantly impact on the level of income collected each year. 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

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 its budget requirement each year.

In accordance with the approach adopted to date, all earmarked reserves will be revisited and fully reviewed as part of the budget process to ensure they still accord with the Authority's priorities and overall funding position.

6 Other Funding Issues

6.1 Changes to Retained Business Rates

At this stage the Government's plans for Business Rates retention remain unclear. Up to the general election, the government had plans to introduce 100% retention of business rates by 2019/2020. The Queens speech to parliament confirmed that the necessary legislation had not been included in the parliamentary timetable, but the government has stated that they 'remain committed to local government taking greater control of their income'.

In parallel, the government are reviewing the needs based element of the funding formula and this change could be implemented without the need for primary legislation. Both DCLG and Local Government continue to work on a 'fairer funding' regime but there is no revised timetable in light of the general election result.

The current retained business rates legislation contains a provision for a full system reset in 2020. This means that "need" would be assessed against the full business rates quantum and the allocations to individual local authorities would change accordingly. Some local authorities' relative share of retained business rates income may be lower as a result.

This uncertainty makes financial planning beyond 2019/2020 very difficult. At this point in time, the assumptions for planning purposes are:

- The Government will be unable to implement retained business rates by 2019/2020.
- In the absence of detailed information in relation to the needs based formula review, if changes to the retained business rates system are implemented, Government will take action to ensure a 'status quo' impact on the funding position for each authority through the top-up and tariff system, to ensure no detrimental impact on each authorities overall funding position.

6.2 Outcome of the General Election and Brexit Arrangements

Following the General Election, Government plans in relation to continued austerity measures and the impacts of Brexit are uncertain. The Chancellor has indicated that further details will not be available until his Budget Statement is released on 22nd November 2017. The impacts on the Authority will be factored into the budget planning process as they emerge.

7 Spending Pressures and Commitments

In addition to funding changes, the Authority must also plan for a range of spending pressures and commitments that are not funded by Government. It is proposed to take into account the following spending commitments in the Budget Planning Framework for 2018/2019, noting that in a number of cases specific cost details cannot be finalised at this stage and will be subject to further review and refinement throughout the budget setting process:

7.1 Pay and Pensions

7.1.1 Pay

- Non Uniformed
  At this stage, provision for the impact of a 1% pay award remains factored into the budget planning. For 2018 the unions have made a claim for 5% and the LGA are currently consulting authorities across the country to assess the Affordability of any future pay award. This position will be kept under review throughout the budget process as there is clearly an upside risk to the budget of higher than expected pay awards, especially if the government does not provide funding to meet this additional cost.

- Uniformed
  Likewise, a provision of 1% remains factored into the MTFS for uniformed staff until further information is available, although it is recognised that there is significant pressure from the Fire Brigade Unions to have sustained and higher pay awards for its members than the 1% public sector cap introduced by the government over the 4 year period to 2019/20.

It is worth noting that if the government does not provide any additional funding to meet pay awards then roughly every 1% above the planned provision included in the MTFS will cost the Authority almost £0.4m in additional budget. This will inevitably mean that the budget gap will increase unless additional resources are provided to the Authority in this scenario.

7.1.2 National Living Wage

The government implemented the national living wage of £7.50 with effect from April 2017, rising to £9.00 by 2020. This represents an additional cost pressure for the Authority both through own staffing costs and external contract suppliers passing the costs on through increased contract prices. Provision has been factored into the Budget planning.

7.1.3 Pensions

Local Government Pension Scheme
The Triennial Actuarial review of the Local Government Pension Scheme was concluded in March 2017. The outcome of the review is reflected in the budget planning up to 2019/2020. The next Actuarial review is scheduled to impact from 2020/2021.

Firefighters Pension Scheme
Government changes to the scheme came in to force from 1st April 2015 with

the addition of the new 2015 scheme and Modified Scheme and changes to

both employer and employee contribution rates across the firefighter pension schemes. The financial implications have been built in to the base budget and will be kept under review. An actuarial valuation of the Firefighters Pension Scheme is undertaken every four years, with the next one scheduled to impact from 2020/2021.

7.1.4 Apprenticeship Levy

The Apprenticeship Levy, introduced in April 2017 for large employers (over 250 employees) was reflected in the base budget from 2017/2018. For Tyne and Wear Fire and Rescue Authority the in 2018/19 is expected to be £0.125m. The Authority has acquired a managed apprenticeship service and is currently exploring how it can best utilise government levy funds available to the Authority. The outcomes will be reflected in the 2018/2019 budget as plans are developed.

7.1.5 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, 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.

7.1.6 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 as required.

8 Efficiency Plan

8.1 The Efficiency Plan 2016/2017 to 2019/2020, which was a requirement by government of the Authority being able to accept the 4 Year Grant Settlement was agreed and published in September 2016. The government reviewed the plan and approved this last autumn. The plan details the Authority’s approach to the delivery of savings necessary to address the reductions in funding and spending pressures it faces over the 4 Year period.

8.2 The 4 Year Efficiency Plan in summary identified savings totalling £8.248m, which was consistent with the Authority’s Medium Term Financial Plan 2016/17 to 2019/20 reported to members in February 2016. However, the budgeted gap of £1.8m was in addition to these forecast savings, which the Authority will still need to address. This position was recognised in the 4 Year Efficiency Plan as further efficiencies were required to balance the budget by 2019/20.

The planned savings are shown below, with the budget savings actually achieved to date to show progress against the Plan.

	4 Year Plan	Updated Plan	Actuals
	£000	£000	£000
2016/17 – efficiencies	1,323	1,323	1,323
IRMP actions	1,184	1,184	1,184
2017/18 – efficiencies	1,394	1,394	1,441
IRMP actions*	1,773	2,338	2,267
2018/19 – efficiencies	4	4	**126
IRMP actions*	1,081	516	
2019/20 – efficiencies	0	0	**125
IRMP actions	1,489	1,489	
Total	**8,248**	**8,248**	**6,466**

*The updated plan reflects the fact that the Authority implemented the Organisational Management Review in full from 2017/18 saving £1.690m. In the original plan this was expected to straddle 2017/18 and 2018/19.
**Reduced Leasing costs which were not anticipated have been secured in both 2018/19 and 2019/20.

The remaining IRMP (2014/17) actions in the plan total £2,005k and include:
- Donations from the Charitable Trading Company of £516k in 2018/19 and a further additional contribution of £100k in 2019/20
- Final stage of the Response Review of £1,389k in 2019/20.

8.3. It is expected that total budget savings of £5.236m will still have to be made during the remaining two years (2018/2019 to 2019/2020) of the 4 year Efficiency Plan based on current forecasts. Planned savings totalling £2.009m have already been identified and with additional leasing budget efficiencies in 2018/19 and 2019/20 together with anticipated increased income, from business rates and council tax, means that the Authority still needs to find almost £1.8m to balance its budget by 2019/20.

8.4 The Authority has already made very difficult budget cost reductions that have impacted upon all areas of the service. Front line services have been affected, both in terms of reducing firefighter numbers and changes to the response model in operation. The base budget has been reduced significantly since 2010/2011 and the budget gap identified is going to become much more difficult to address as a result.

8.5 Going forward, new actions need to be examined to make the further budget efficiencies needed. At the Authority meeting in September 2016, approval was given to commence work on three new reviews set out in the IRMP 2017-2020. These reviews are all in their initial stages and, once savings can be quantified, they will be factored in to an updated Medium Term Financial Strategy. In the medium term it is recognised that temporary use of reserves and balances may be needed until these actions can be implemented and permanent budget reductions achieved.

9 Fire Injury Pensions

9.1 Members will be fully aware of this issue and that this matter is being progressed with the Home Office. It is clear that the financial implications could be significant, both in the medium term and longer term future of the Authority. However until a position is agreed there continues to be no provision made in the MTFS.

10 Summary Resources, Pressures and Commitments Position

10.1 The total reduction in resources and spending pressures represents the estimated gross funding gap. However, at this stage there remains a number of significant uncertainties:

- The Chancellors Budget Statement in November 2017;
- The Local Government Finance Settlement for 2018/2019, which will probably not be available until late December;
- Potential impacts of Brexit and future Government austerity measures following the June 2017 Government election, which will not be made clear until the Chancellors Budget Statement in November;
- The Government plans in relation to Business Rates reform;
- Confirmation and update on IRMP savings assumptions;
- Results of negotiations with the Home Office regarding the injury pension issue;
- The general economic position and public sector finances;
- Pay awards and who will fund them; and

- Impact of further roll out of Universal Credits on Council Tax income.

11 Proposed Budget Planning Framework for 2018/2019

11.1 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 paragraph 2 and updated in light of the Autumn statement due in November 2017 and the Local Government Finance Settlement expected in December 2017;
- 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;
- The position regarding the Council Tax Precept increase of 1.99% per annum for the next 2 years to 2019/2020 will need to be kept under review and if there is a relaxation of the referendum limit, any increased flexibility will need to be fully considered by members as part of the budget setting cycle, with confirmation of these proposals being sought as soon as practicably possible; and

- Commitments against general balances and earmarked reserves to be reviewed and updated as necessary throughout the budget process.

12 Risk Management Implications

12.1 Risk implications have been considered in drafting the necessary guidance which is an essential early part of the Authority's robust revenue budget planning arrangements. The approach is reasonable and there are no real concerns or risks that have not been included within the report at this stage.

13 Financial Implications

13.1 The Budget Planning Framework provides the necessary guidance and information on the key financial aspects that will need to be considered by the Authority in drafting up the 2018/19 Revenue Budget to be approved by members in February 2018. At this early stage, however, there are no direct financial implications apart from those areas contained within the report.

14 Health and Safety Implications

14.1 There are no Health and safety implications from this report at this stage.

15 Equality and Fairness Implications

15.1 There are no equality and fairness implications in respect of this report.

16. Recommendations

16.1 Members are recommended:

a. To note the contents of the report and the estimated funding gap based on the most up to date information;
b. To agree the proposed Budget Planning Framework summarised at Section 11 of the report which will guide the preparation of the Revenue Budget for 2018/2019; and
c. To note the updated current Medium Term Financial Strategy and that the full Medium Term Financial Strategy 2018/2019 to 2021/2022 will be presented to Authority in February 2018.