

2011/12 and Later Years Revenue and Capital Budgets

Report of the Treasurer

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1 Purpose of Report

This report brings together the elements of the budget, as set out in the reports that follow, and seeks the Committee's approval for a budget outline to be recommended to the Authority in December.

2 Recommendations

The Committee is asked to

- a) Approve the revised expenditure figures as a basis for developing the budget at the Fire Authority on 15 December 2010;
- b) Approve seeking to secure the precept freeze grant by setting a zero increase in precept in 2011/12
- c) Approve the current policy for reserves and provision, (subject to addressing the outstanding issues highlighted), at the December meeting of the Fire Authority.

3 Background

The Committee through the Budget Working Group and the Strategic Risk and Planning Working Group (STRaP) has based its budget planning to date as follows. Expenditure is largely based on the forecasts approved by the Fire Authority in February 2010, but inflation has been reduced along with forecasts of grant and precepts to match a low inflation period together with a widely trailed 25% reduction in grant.

	2011/12	2012/13	2013/14	2014/15	Total
	£ 000	£ 000	£ 000	£ 000	£ 000
Previous Year's Budget	21,366	21,459	20,989	20,867	
Committed Changes	429	47	-44	-10	
Pay and Prices	162	168	409	418	
Service Developments	200	200	200	200	
Efficiencies	-190	-190	-190	-150	
2011/12 onward Capital Schemes	42	189	174	163	
<i>Expenditure before reductions</i>	<i>22,009</i>	<i>22,423</i>	<i>22,972</i>	<i>23,593</i>	<i>23,593</i>
Reduction Required	-550	-884	-671	-733	-2,838
Expenditure	21,459	20,989	20,867	20,755	20,755

This was to be funded as follows:

Grant	7,752	7,236	6,720	6,203	
Council Tax	13,677	13,723	14,117	14,522	
Collection Fund – surplus	30	30	30	30	
	21,459	20,989	20,867	20,755	

This report deals with changes to existing expenditure budgets, and forecasts implications for reserves.

Funding estimates can only be completed once final information is available in early January on the Council Tax Band D base and the Collection Fund surplus, but current projections can be retained for the time being given the lack of clear alternative information.

The grant settlement for 2011/12 for this Authority will not be known until late November at the earliest however formal guidance on likely reductions in grant as well as the “tax freeze” grant following the Comprehensive Spending Review (CSR) can be adopted to update the income forecasts which have been used in planning up to this point.

Finally the report adds forecasts for the final fifth year of the planning period although this must be speculative given that it is beyond the current CSR

4 Revised Budget Summary

The changes to revenue expenditure covered in the following papers can be summarised as follows:

	2011/12	2012/13	2013/14	2014/15	2015/16
	£ 000	£ 000	£ 000	£ 000	£ 000
Previous Year's Budget	21,366	21,808	22,376	22,733	23,360
Committed change	160	76	-95	79	-40
Pay and Prices	336	401	425	433	442
Efficiencies	- 290	-190	-190	-150	-150
2011/12 and later Capital Programme	36	81	17	65	37
Service Developments	200	200	200	200	200
	21,808	22,376	22,733	23,360	23,849

5 Summary to date

At this stage, further work is needed on all forecasts. However, changes already identified show that the originally planned deficits and, therefore, potential reductions in spending and reserves in 2011/12 through to 2014/15 have been lowered by expenditure reductions from £23.593m to £23.360m. i.e. £233,000.

The reasons for these reductions are set out below:-

	Committed Growth	Pay and Prices	Efficiencies and Service Developments	Capital Programme	Reduction in Expenditure Now Estimated
	£000	£000	£000	£000	£000
2011/12	-269	174	-100	-6	-201
2012/13	29	233	-	-108	154
2013/14	-51	16	-	-157	-192
2014/15	89	15	-	-98	6
	-202	438	-100	-369	-233

The main reasons for the changes are:

- i Committed growth .The reduction results from the legacy inflation already identified, of £100,000; reduced actuarial assumptions for the Local Government Pension Scheme of £62,000 and capital costs of committed schemes £86,000.;

- ii Pay and Prices - An increase of £174,000, £233,000, £16,000 and £15,000 is largely as a result of bringing forward an assumption of 1.5% pay inflation in 2011/12.
- iii Efficiencies and Service Developments. The increased efficiencies is a result of including the £100,000 insurance costs saved in 2010/11.
- iv Revenue costs of Capital Programmes. These are the effects of the Public Value review of capital schemes starting in 2011/12 onwards.

6 Funding Assumptions

It is now possible to re-appraise the income forecasts following the letter from the Minister on 20 October 2010.

Firstly it will be possible to reflect the latest projected reductions in grant together with their back-loading.

Secondly it will be possible to assume a revised set of precept increases following the letter from Communities and Local Government (CLG) dated 21 October 2010 setting out the rules for the "Council Tax Freeze". In particular it is assumed that the objective should be to set a zero increase in precept in next year in order to minimise the impact on Council Tax by obtaining the equivalent of a 2.5% increase through the tax freeze grant which is worth approximately £335,000.

There remain of course a number of significant uncertainties but at least such an exercise enables a re-appraisal of the work done through the Public Value process to identify the spending reductions required.

The main uncertainties now remaining are:

- i The 2011/12 and later years' precept increase excessiveness criteria. This is currently perceived to be 2.5% given that grant equivalent to such an increase is available (if only in 2011/12);
- ii The detail of phasing the back-loading of Revenue Support Grant reductions
- iii Grant formula or data change increases (or decreases) from 2011/12 onward;
- iv Other potential grant changes e.g. the effect of specific grant consolidation in revenue support,
- v Rebalancing grant and precept income (presumably through the grant mechanism)
- vi The meaning of real-term and cash equivalent reductions
- vii The Band D base; and
- viii The collection fund surplus or deficit.

However an updated income forecast might be:

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Revenue Support Grant	7,855	7,441	6,821	6,201	6,536
Tax Freeze Grant	335	335	335	335	-
Precept	13,408	13,454	13,840	14,237	14,634
Collection Fund	30	30	30	30	30
Total Income	21,628	21,260	21,026	20,803	21,200

Given the range of forecasts possible in the light of the unknowns set out above, it is difficult to select any particular assumptions. However the table above makes the following assumptions:

- Precept increases are zero in 2011/12 and 2012/13 and 2.5% thereafter;
- Grant reduces by 25% in cash terms i.e. 5% in 2011/12 and 2012/13 and 7.5% in each of the following years;
- There is an increase in Band D base in line with experience in recent years;
- The collection fund remains in surplus roughly at 2010/11 levels.

These scenarios increase income by £48,000 over the original forecast. This is because the freeze grant at 2.5% is greater than the 2.0% originally assumed. The net changes to expenditure and income produce the following deficits:-

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Deficits / (Surplus)	180	1,116	1,707	2,557	2,649
- <i>annual increase</i>	180	936	591	850	92

7 Outlook and Future Planning

Clearly the example in paragraph 6 above produces potential deficits in the next five years. There are also other scenarios, which would produce both more optimistic and pessimistic outcomes.

At this point it will be necessary to close the funding gap by a combination of reductions identified through the Public Value process, and or alternative precept planning. The current position on Public Value reductions is set out in the attached paper

The potential savings identified through the Public Value process are set out below and adjusted for those items which have already been incorporated into other papers:-

	2011/12	2012/13	2013/14	2014/15	Total
	£000	£000	£000	£000	£000
Public Value Totals	1,146	597	588	422	2,753
<i>Legacy inflation</i>	-100				-100
<i>Insurance savings</i>	-100				-100
<i>Forward capital programme</i>	-63	-90	-160	-125	-438
	883	507	428	297	2,115

The impact of these reductions is to create a surplus of £703,000 in 2011/12, £274,000 in 2012/13 and £111,000 in 2013/14. This would be followed by a deficit of £442,000 in 2014/15 and £534,000 in 2015/16.

At this stage it is proposed to go forward to the Authority on the basis of these figures, subject to any further information on the grant settlement, and subject to , to further work being carried out on the most effective way to use the predicted surpluses in the early years of the plan to reduce committed expenditure in later years.

8 Financial Implications

The financial implications are as outlined in the main body of the report.

9 Legal Comment

There are no direct legal implications arising from this report.

10 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

11 Appendices

There are no appendices attached to this report.

12 Background Papers

Reports 5a to 5f on the agenda for this meeting of the Committee.

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk), the implications are detailed within the report itself.

Business Continuity Planning		Member Involvement	
Capacity		National Framework	
Civil Contingencies Act		Operational Assurance	
Efficiency Savings		Public Value	
Environmental		Retained	
Financial	*	Risk and Insurance	
Fire Control/Fire Link		Staff	
Information Communications and Technology		Strategic Planning	*
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	*
Legal	*		