

Revenue Budget, Capital Programme and Medium Term Financial Planning

Report of the Treasurer

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1 Purpose of Report

This report incorporates the recommendations made by the Strategy and Resources Committee on 20 January 2011 for the Authority's 2011/12 budget, updates the figures for changes since then, and outlines the consequences for medium term financial planning.

2 Recommendations

The Fire Authority is recommended to approve:

- i) A revenue budget for 2011/12 and a forward financial projection to 2015/16, as set out in section 6;
- ii) Incorporating these projections into its 2011/12 Medium Term Financial Plan;
- iii) That its Strategy and Resources Committee start to develop the Authority's 2012/13 service and financial planning with a view to lobbying for change to the current unpredictable method of central funding of local fire authorities, as set out in section 6;
- iv) That the current Service and Medium Term Financial Plan be integrated in a new Medium Term Corporate Plan (MTCP), as set out in section 7;
- v) The draft MTCP, as set out on the website; and
- vi) That its Strategy and Resources Committee develop a Service Plan, as set out in section 7, for approval at the meeting of the Fire Authority on 27 April 2011.

3 Background

The Fire Authority, in December 2010, agreed a 2011/12 budget package for consultation, based on:

- i) A revenue budget of £20,837,000;
- ii) A Council Tax precept of £83.81, i.e. a zero increase; and
- iii) Assumptions on the Band D tax base and collection fund that led to a surplus of income over expenditure of £448,000. This would be added to the un-earmarked capital reserve to reduce committed expenditure in later years.

It requested the Strategy and Resources Committee to prepare a budget package during January, for a final decision to be made at this meeting.

In response to this request the Committee in January:

- a) Reviewed responses to consultation with the public and stakeholders;
- b) Considered a report on the capital programme in the light of prudential and treasury management indicators, plus its policy on minimum revenue provision, i.e. whether the programme is prudent and sustainable; and
- c) Considered a report on the adequacy of reserves and provisions and the robustness of the budget.

The Strategy and Resources Committee's recommendations on the capital programme, its funding and prudential indicators, reserves and provisions, and the robustness of the budget are all considered earlier on the agenda as part of the minutes from the Committee.

This paper also deals with the outstanding issue of incorporating its service, financial and improvement planning.

4 Proposed Final Budget Package

The Strategy and Resources Committee in January was told that there had been no reported changes to the revenue budget and that budgeted expenditure, therefore, remained unchanged from that reported to the Fire Authority in December. Regarding estimated income, provisional updates to collection fund surpluses from £30,000 to £100,000, and a small increase of £1,000 in the tax freeze grant to £337,000 were reported. The net effect of this was to increase income by £71,000 and the sum available to be added to the un-earmarked capital reserve to £519,000, thereby increasing the budget requirement to £21,356,000. This is the recommendation of the Committee reported earlier on the agenda.

5 Developments since the Committee Meeting

Since the Committee met formal notification of the collection fund surplus as £117,000 has been received. The net impact is £17,000 of additional resources, which, when added to the un-earmarked capital reserve, would increase the net budget requirement to £21,373,000.

Further clarification has been received on:

i- Council Tax Information

The Strategy and Resources Committee had felt that a council tax leaflet on the lines of that for 2010/11 would be appropriate. It is now clear that there is no need for authorities to include efficiency information with council tax bills, although they can, if they wish. In our case efficiency information has not led to any queries, also national comparators are not likely to be available in future and their relevance to combined fire authorities has been limited. It is proposed, therefore, to remove this table from the leaflet.

ii- Council Tax Freeze Grant

It has been made clear that the rules for obtaining the grant are based on freezing or reducing band D council tax in 2011/12, that the grant will be matched exactly in the subsequent three years of the Spending Review and that authorities will not have to freeze or reduce their council tax from 2012/13 to continue to receive the grant

iii- Capping and Referenda

The Localism Bill, if enacted, will require, from 2012/13 onwards, a fire authority to hold a referendum, if it wishes to increase its council tax above a threshold determined by the Secretary of State and approved by the House of Commons. Central Government capping will also be abolished.

The Fire Authority in December was told of the disappointing provisional formula grant settlement, the full details of which are set out below.

| | Grant before floors £000 | Increase/ Decrease (-) % | Flooring adjustment £000 | Grant actually delivered £000 | Increase/ Decrease (-) % |
|---------|-----------------------------|-----------------------------------|--------------------------------|-------------------------------------|-----------------------------------|
| 2008/09 | 8,383 | 5.8 | -713 | 7,670 | 6.6 |
| 2009/10 | 8,511 | 1.5 | -536 | 7,975 | 4.0 |
| 2010/11 | 8,634 | 1.4 | -366 | 8,268 | 3.7 |
| 2011/12 | 6,848 | -20.7 | 634 | 7,482 | -9.5 |
| 2012/13 | 6,865 | 0.2 | 363 | 7,228 | -3.4 |

From this it can be seen that our grant before flooring has fallen by just over a fifth between 2010/11 and 2011/12. This has been limited to a 9.5% reduction by floor protection set at that level to limit individual fire authority losses.

Attempts have been made to isolate exactly why this Authority should have suffered such a large reduction, and a visit was arranged with the Fire Minister on 12 January. It proved impossible to disaggregate the impact of formula changes, data changes and the reduction in grant across the Service as a whole. However, from information supplied by civil servants subsequently, and discussions with other authorities, it does appear that the reduction is largely as a result of an estimated reduction in the population; introduction of a new measure of deprivation through population density; data changes for measures of deprivation; plus the overall reduction in grant nationally of about 6%.

It does not appear to be the result of a simple error. Confirmation of the provisional grant settlement has been received (on 31st January) with, regrettably, no change.

6 Financial Projections

The position for the next five years can be summarised as follows.

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|--|---------------|---------------|---------------|---------------|---------------|
| | £000 | £000 | £000 | £000 | £000 |
| Expenditure as reported to Fire Authority in December | 20,837 | 20,892 | 20,821 | 21,151 | 21,640 |
| Income | | | | | |
| Formula Grant | 7,482 | 7,228 | 6,605 | 6,004 | 6,341 |
| Tax Freeze Grant | 337 | 337 | 337 | 337 | - |
| Council Tax | | | | | |
| £83.81x 160,324.69 | 13,437 | | | | |
| £83.81x160,966 | | 13,491 | | | |
| £85.91x161,610 | | | 13,884 | | |
| £88.05x162,257 | | | | 14,288 | |
| £90.25x162,906 | | | | | 14,704 |
| Collection Fund | 117 | 30 | 30 | 30 | 30 |
| Total Income | 21,373 | 21,086 | 20,856 | 20,659 | 21,075 |
| Balance | | | | | |
| Surplus to Un-earmarked Capital Reserve | 536 | 194 | 35 | | |
| Net Deficit (-) | - | | | -492 | -565 |

The Strategy and Resources Committee took the view that the 2011 /12 Medium Term Financial Plan (MTFP), which will be incorporated into the Corporate Plan of the Authority, should be based on these predictions. If these proved true, then there would be a potential deficit, certainly from 2014/15 onwards, which would run at about £0.5 million. At present there is time (at least two years), and scope, to address this shortfall by a combination of measures highlighted during the Public Value process; the outcome of pay and price changes from 2010/11 onwards; use of the un-earmarked capital reserve; and precept strategy.

Nevertheless, the Committee recommends taking early action to develop its next year's Corporate Plan for the following reasons:

- i) The Formula Grant Settlement has been extremely difficult to justify and the Government has had to resort once again to flooring protection to prevent unsustainable variations from settlement to settlement. In our case we have had a 12.6% reduction in grant after flooring, 20.5% without such protection. We understand that only 6.5% of the 25% grant reduction nationally has been taken in the first two years, leaving a further 18.5% to come in the final two years. This could mean that, on top of the 12.6 % reduction, we have a further 18.5% reduction to come, totalling 31% not 25% and adding a possible further £300,000 to the deficit.
- ii) As the reasons for the variations resulting from the current settlement are so opaque, it is not possible to take definite action to follow up issues. Furthermore, there is confusion as to whether the 25% grant reduction planned over the four years is a real terms or cash reduction. We had been told to plan for a 25% reduction in grant, but some authorities have been told by civil servants that the 25% is a real reduction and that in cash terms this would equate to 18.5%. If true, this would mean that more grant would be paid in cash to offset inflation, thereby reducing the Authority's projected deficit
- iii) The Government is well aware of the weaknesses and uncertainties in the current system of financing local authorities and is launching the Local Government Resource Review. The Authority will be well placed to contribute authoritatively to the Review, when it develops its Corporate and Financial Plan for 2012/13 during the coming year.

7 Integration of Service, Financial and Improvement Planning

The Fire Authority has decided that it wishes to integrate the MTFP into a single corporate and financial plan. In order to do this it is suggested that the MTFP be renamed 'the Medium Term Corporate Plan' (MTCP), which will then incorporate the essential contents of the MTFP and the findings arising from the 2010 Public Value Review. The MTCP will be the document that sets out the service and financial objectives for the Authority for the next five years.

The MTCP would be supplemented by an annual Service Plan, which would capture the workstreams and performance indicators to enable progress to be monitored. Strategy and Resources Committee would agree the details of this document and Audit and Performance Management Committee would monitor progress against it. This would be an annual document and progress would be reported back to the Fire Authority via the Annual Report.

A draft MTCP for 2011/12 can be found on the Service website by selecting the link below:

<https://www.shropshirefire.gov.uk/managing-the-service/budgets-and-finance/finance-documents>

The draft is consistent with the papers being presented to this meeting and will be amended to reflect any changes decided by the Authority.

The next stage would be to develop the Service Plan, which will be presented to Strategy and Resources Committee on 17 March 2011 and confirmed at the meeting of the Fire Authority on the 27 April 2011.

8 Financial Implications

The financial implications are detailed in this report.

9 Legal Comment

There are no legal implications other than those outlined in the report.

10 Equality Impact Assessment

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

11 Appendices

There are no appendices attached to this report.

12 Background Papers

Shropshire and Wrekin Fire and Rescue Authority

- 15 February 2010, Paper 8, 2010/11 and Later Years' Budget Summary
- 21 July 2010, Paper 12, Integrated Strategic Planning Process 2011/12
- Strategy and Resources Committee, 20 May 2010, Paper 7, Strategic Planning Process 2011/12 and the Medium Term Financial Plan
- Strategy and Resources Committee, 20 January 2011, Paper 8, Revisions to the 2011/12 Budget and Medium Term Financial Planning

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.

| | | | |
|--|---|---|---|
| Balanced Score Card | | Integrated Risk Management Planning | |
| Business Continuity Planning | | Legal | |
| Capacity | | Member Involvement | * |
| Civil Contingencies Act | | National Framework | |
| Comprehensive Performance Assessment | | Operational Assurance | |
| Efficiency Savings | * | Retained | |
| Environmental | | Risk and Insurance | |
| Financial | * | Staff | |
| Fire Control/Fire Link | | Strategic Planning | * |
| Information Communications and Technology | | West Midlands Regional Management Board | |
| Freedom of Information / Data Protection / Environmental Information | | Equality Impact Assessment | * |