



# Dorset Fire Authority

MEETING	Dorset Fire Authority
DATE OF MEETING	5 December 2014
OFFICER	Chief Fire Officer
SUBJECT OF THE REPORT	Budget Principles 2015/16 and Medium Term Finance Plan
EXECUTIVE SUMMARY	<p>This report provides Members with an update on preparation of the 2015/16 budget and implications for the medium term finance plan (MTFP).</p> <p>The current MTFP predicts a budget gap of £390k for 2015/16, rising to £2.3m by 2017/18, assuming 2% council tax increases. The report outlines a number of changes to the budget and the net impact from 2015/16 onwards. The changes currently factored in would see the budget gap reduce marginally next year, and by £200k to £400k each year by 2017/18, provided that the planned council tax increases are maintained at just under 2%, and there are no further adverse changes in grant funding. The Service would need to deliver £300k of savings from pre-Combination work to set a balanced revenue budget for 2015/16.</p> <p>Final confirmation of business rates receipts, taxbase changes and more information on future pension costs is required before the 2015/16 budget can be finalised. These issues will be dealt with in the final budget report for the February 2015 Fire Authority meeting.</p>
RISK ASSESSMENT	<p>Our financial plans are based on best available information. Future grant funding levels after 2015/16 will not become clearer until after next years General Election and a new Spending Review.</p> <p>The delivery of savings through the proposed combination with Wiltshire FRS is key to achieving balanced budgets in future years.</p>

<p><b>COMMUNITY IMPACT ASSESSMENT</b></p> <p><i>Note: If the matrix indicates negative impacts on the community or staff, an equality impact assessment (EIA) will need to be completed.</i></p>	<p>The Final Business Case for Combination outlines the impact on the community arising from each of the three future Scenarios. The combination option, Scenario 3, has the least impact on the community going forward.</p>
<p><b>BUDGET IMPLICATIONS</b></p>	<p>None</p>
<p><b>RECOMMENDATIONS</b></p>	<p>It is recommended that Members note and comment upon the contents of this report.</p>
<p><b>BACKGROUND PAPERS</b></p>	<p>Medium Term Finance Plan 2014-19 Strengthening Our Fire and Rescue Service - Final Business Case - November 2014</p>
<p><b>APPENDICES</b></p>	<p>None</p>
<p><b>REPORT ORIGINATOR AND CONTACT</b></p>	<p>Ian Cotter, Head of Financial Services Tel: (01305) 252697</p>

## 1. Background

- 1.1 Members approved the current medium term financial plan at their meeting on 12 February 2014. The plan makes assumptions about future levels of grant income and council tax funding, taking into account a number of varying factors. These include the impact of Spending Review 2013, the 2014/15 local government finance settlement, the provisional settlement announced for 2015/16 and indications of likely further funding reductions in future years.
- 1.2 The MTFP identifies a funding gap of between £2.3m and £3.2m by 2017/18, depending on council tax levels. This report provides an update on our financial assumptions going forward and is largely about setting a balanced budget for 2015/16, in the context of an approved Final Business Case for Combination with Wiltshire and Swindon Fire Authority.

## 2. Grant Assumptions for 2015/16 Onwards

- 2.1 The Local Government Finance Settlement for 2014/15, published on 5 February 2014, showed a funding settlement for this Authority of £11.582m. This was a reduction of £930k or 7.4% compared to 2013/14.
- 2.2 The same announcement provided a provisional settlement amount for 2015/16. This takes Dorset's grant funding down a further £969k or 8.4% to £10.613m. In July 2014 the Government issued a consultation document setting out some proposed technical changes to the funding settlement for 2015/16 but these showed no impact for the Dorset Fire Authority.
- 2.3 There is an expectation that further funding cuts will be required over the four years from 2016/17 to 2019/20 as the Government continues with its financial austerity programme. For planning purposes the MTFP assumes that these further cuts will be at a similar rate to those of CSR10, ie approximately a 22% reduction in fire funding nationally, equating to a 5.5% average annual reduction, or an additional £0.5m to our budget gap each year. This should probably be viewed as a minimum position. The July consultation document indicates that proposals for the 2016/17 settlement will not be known until after next year's Budget and a new Spending Review, presumably following the 2015 General Election.
- 2.4 The Chancellor will deliver his Autumn Statement on 3 December 2014 and we expect the Provisional Local Government Final Settlement for 2015/16 to be announced two weeks later, on 17 December 2014.

## 3. Business Rates Income

- 3.1 DCLG splits the overall funding settlement for local authorities between Revenue Support Grant and a Baseline Funding Level. The table below shows the split for the Dorset Fire Authority.

	2014/15 £'000s	2015/16 £'000s
Settlement Funding Assessment	11,582	10,613
<i>made up of:</i>		
Revenue Support Grant	6,486	5,377
Baseline Funding Level	5,096	5,236

- 3.2 The Baseline Funding Level is further split down between an assumed level of business rates income and a tariff or top-up adjustment. All fire authorities currently receive top-up adjustments in the form of grant payments from DCLG and they increase each year in line with inflation.
- 3.3 The share of business rates income that we actually receive is based on actual receipts and declarations made locally by the billing authorities in Dorset. This is not necessarily the same as the assumed level of income in our funding settlement. The 2014/15 revenue budget and medium term finance plan projections are based on DCLG's funding assessment amounts and need adjusting. The actual level of income being declared by the billing authorities is currently less than the DCLG assumption, partly due to varying local factors and also additional business rates reliefs announced by the Chancellor.
- 3.4 For 2014/15 the budget assumes income of £2.431m but actual receipts will only total £2.261m. The shortfall of £170k is mostly offset by additional specific grants for business rates reliefs which are £143k more than expected. The net impact on this years budget is therefore a reduction of £27k.

	2014/15 £'000s	2015/16 £'000s
Baseline Funding Level	5,096	5,236
<i>made up of:</i>		
Top Up Funding	2,665	2,738
Assumed NNDR	2,431	2,498
Actual NNDR	2,261	2,313
<b>NNDR deficit</b>	<b>170</b>	<b>185</b>
Additional S.31 grants	143	147
<b>Net impact on revenue budget</b>	<b>-27</b>	<b>-38</b>

- 3.5 Future levels of business rates income are difficult to predict at this stage. The billing authorities do not need to declare their figures for 2015/16 until the end of January 2015. If we assume that actual business rates receipts increase at the same inflation rate as the government top-up grant, then the net impact on the revenue budget is £38k (see above). If business rates receipts remain static the net impact on the budget could be as much as a £90k shortfall in funding. For planning purposes we are currently assuming a £50k shortfall.

## 4. Council Tax

- 4.1 Whilst funding for a council tax freeze in 2015/16 is still available, this was covered in the Final Local Government Finance Settlement announcement earlier this year, anything less than the 2% increase included in our medium term financial plan and the Final Business Case for Combination would add to the financial deficit faced in future years. A 1% variation in council tax receipts is worth around £180k for Dorset.
- 4.2 Clearly the Autumn Statement and subsequent Provisional Local Government Finance Settlement announcement in December could signal a different approach for local referendum principles going forward, and we may see a reduction in the current 2% limit.
- 4.3 As the Final Business Case identified there are council tax harmonisation issues with Wiltshire and whilst both fire authorities have approved the combination, this is subject to DCLG satisfactorily resolving the harmonisation issue. At the time of writing this report, this issue remains unresolved and the Chairman of the Fire Authority will provide an update during the meeting.
- 4.4 It is pleasing to note that changes in taxbase growth are having a beneficial financial impact. Actual council tax income is based on the Band D Council Tax and taxbase in each of the billing authority areas. The taxbase varies each year as residential property numbers and the various council tax reliefs change. The current medium term finance plan assumes that the council tax base in Dorset will increase by 0.2% year on year. This has been a long standing financial assumption. In 2014/15 the council tax base across the county showed an average increase of just over 1%, and previously has been averaging around 0.5%. Changing our future tax base growth assumption to 0.5% provides an additional £55k in council tax income in 2015/16. 1% growth would add £147k of additional income.
- 4.5 For planning purposes at this stage the budget projections that follow in the next section of the report include the impact of changing the taxbase growth assumption to 0.5%. Final taxbase figures will be known towards the end of January 2015 and will be reflected in the final budget proposals to be considered by Members in February 2015.

## 5. 2015/16 Revenue Budget

- 5.1 As well as the impact of changes to government funding, business rates income and council tax indicated in the previous sections there are a number of other factors that will influence our medium term financial position. Perhaps the most significant are:
- ◆ Pay awards - the pay awards agreed in 2014/15 show a significant saving over the provisions made in the current medium term finance plan. The level of savings is estimated at £254k per year from 2015/16. For future pay awards we will continue to assume 2% increases across all years and for all staff groups. A 1% variation in pay award is worth around £220k;

- ◆ Introduction of the Single State Pension from April 2016 - this will mean an end to reduced, contracted-out, employer national insurance contributions. For this Authority the additional costs is estimated at £350k. This is already built into our current medium term financial plan;
- ◆ Pensions auto enrolment - there has been an increase in the number of support staff electing to join the Local Government Pension Scheme. The additional cost is estimated at £20k per year;
- ◆ 2015 Firefighters Pension Scheme (FPS) - we do not yet know the full impact of the introduction of the 2015 FPS. The employer contribution rate for the new scheme has not yet been published. We do know that as the new scheme is a CARE scheme, based on Career Average Earnings, that overtime payments will now be part of pensionable pay. We have estimated that this could lead to £43k in increased costs; and
- ◆ RDS Modified Pension Scheme - this is a modified part of the 1992 Firefighters Pension Scheme opened to certain RDS staff following the conclusion of the Part-Time Workers case. An options exercise is currently underway and eligible staff will shortly be receiving detailed financial information to enable them to decide whether they wish to join the modified scheme. The options exercise must be concluded by 31 March 2015. We previously assessed the maximum liability to be £235k per year should all eligible members of staff join the scheme, but this has since reduced by around £20k as a result of leavers and retirements in 2014. Given the degree of uncertainty around the additional cost we have not yet factored an increase into the budget proposals for 2015/16 but we will need to do so for the final budget in February 2015. A contingency of £80k remains in our Part Time Workers case provision and could be used to part fund any additional costs in 2015/16.

5.2 These issues were discussed in more detail with the Budget Working Group on 21 November 2014. The financial impact on our medium term financial plan is shown below. For 2015/16, based on these assumptions, a budget gap of £300k remains.

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Total Funding	29.847	29.074	28.946	28.798	28.682
Budget requirement	29.847	29.464	30.36	31.108	31.859
<b>Surplus/deficit</b>	<b>0.000</b>	<b>-0.390</b>	<b>-1.414</b>	<b>-2.310</b>	<b>-3.177</b>
NNDR income		-0.050	-0.050	-0.050	-0.050
Council taxbase		0.055	0.113	0.174	0.237
Pay award savings		0.254	0.254	0.254	0.254
LGPS		-0.020	-0.020	-0.020	-0.020
FPS		-0.043	-0.043	-0.043	-0.043
Other		-0.106	-0.055	0.000	0.000
<b>Revised Surplus/deficit</b>		<b>-0.300</b>	<b>-1.215</b>	<b>-1.995</b>	<b>-2.799</b>

- 5.3 The Final Business Case identified *LIKELY CASE* savings for 2015/16 of £784k across the two authorities. Dorset will therefore need to deliver at least £300k of savings, based on current assumptions, to meet the remaining budget gap identified for 2015/16.
- 5.4 We are confident that this level of saving can be achieved through a mix of:
- ◆ Vacancy margins - both Services are managing whole-time and support staff vacancies to help minimise transition costs and workforce planning issues;
  - ◆ Capital financing savings - the two Services will shortly need to decide on replacement plans for aerial appliances and front line fire appliances. There is an expectation that vehicle replacement numbers will reduce, with a consequential reduction in capital financing costs;
  - ◆ Non-pay budget reductions - some non-pay budget savings can be expected as we move from "*business as usual*" to transition work; and
  - ◆ Joint Command and Control Centre savings - some part year savings should accrue in 2015/16 but this is subject to successful delivery of the Networked Fire Control Services Partnership project.
- 5.5 Final budget proposals will be brought to the Fire Authority on 10 February 2015.

## 6. Reserves and Balances

- 6.1 The Authority maintains a risk assessed general reserve of £1.5m. In addition, cost centre balances are held and they currently total £509k. The cost centre balances are generated from any savings or underspends on budgets each year, and along with the general reserves, provide a working balance to help cushion the impact of uneven cash flows that could otherwise lead to temporary borrowing. They are also used to fund items of expenditure that carry forward from one year to another and can provide funding for additional one off spending pressures.
- 6.2 The Second Quarter Financial Performance Report for 2014/15 identifies a potential underspend of £508k for the current financial year. This represents around 1.7% of the approved revenue budget. This underspend would take cost centre balances to just over £1m in total.
- 6.3 In discussions with the Budget Working Group, we highlighted a need to add further funds to our transformation reserves. By adding a further £500k to these reserves we can establish a separate fund for the Joint Command and Control Centre project and maintain other transformation reserves of around £1.5m to support the wider combination work. This would bring our transformation reserves funding into line with Wiltshire FRS and is consistent with the financial proposals in the Final Business Case for Combination. A recommendation to this effect is included in the paper covering the Second Quarter Financial Performance Report.

## **7. Next Steps**

- 7.1 The Budget Working Group is not scheduled to meet again at this stage. Final budget proposals will be brought to the Fire Authority meeting on 10 February 2015.
- 7.2 The Chancellor's Autumn Statement is due to be released on 3 December 2014, with the provisional local government finance settlement due to be published on 17 December 2014. Should there be significant implications arising from the Autumn Statement or the Provisional Local Government Finance Settlement a further meeting of the Budget Working Group may need to be arranged.

**DARRAN GUNTER**

Chief Fire Officer

27 November 2014