

5. BUDGET PREPARATION 2009/10

Purpose of report

- 1 To give an update on the 2008/09 budget position and to review the current position in relation to Revenue and Capital Budgets for 2009/10 and beyond.
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2008/09 Revenue Budget

- 2 In accordance with the monitoring reports presented to this Committee during the year the revenue out-turn is expected to be broadly balanced.
- 3 This position however masks the fact that the Service has achieved significant in year efficiencies to contain both the increased cost of the pay award (£0.080m) and significant investment in RDS training (£0.090m).
- 4 Additionally whilst there has been a significant saving in capital financing costs this has largely been offset by the collapse in investment income rates (from a budgeted 5% to nearer 0.5% in the latter part of the year).

2009/10 Resource Position

- 5 In January 2008 the 3-year grant settlement for 2009/10 and 2010/11 was made. In November 2008 the 2009/10 grant figure was confirmed at the same sum of £10.536m. The 2010/11 figure was also unchanged.
- 6 The grant increase over 2008/09 is 0.7% which is marginally above the floor (0.5%) but well below the average for all CFAs at 2.0%.

The comparative figures for the other standalone FRAs in the region are:

Shropshire	4.0%
Staffordshire	2.8%
West Midlands	1.2%

- 7 The grant settlement continues to be the lowest per head for Combined Fire Authorities, at 74% of the average. However, within the financial constraints of the grant settlement, the FRA continues to seek to reduce its environmental impact (sustainability) through the following measures:
 - In partnership with the Environmental Agency , investment in enhanced protection capability,
 - The roll out of compressed air foam systems to reduce carbon emissions and
 - Assessment of fuel usage at buildings, targeting high consumption for efficiency measures.
- 8 Final details of Council Tax-bases and Collection Fund surpluses or deficits are still awaited from Billing Authorities, and therefore the tax yield is based on a prudent estimate.

- 9 To reflect changing economic conditions, the usual assumption of a 0.25% annual increase in the tax-base has been replaced with an assumption of 0% change. This will, of course, be replaced with actual tax-base figures as soon as they are available.
- 10 In setting the Medium Term Financial Plan (MTFP) in February 2008 the FRA approved a policy on future Precept increases as:
- 2009/10 4.75%;
 - 2010/11 4.50%;
 - 2011/12 4.25%;

and these have been used in the budget preparation. Officers can provide information on the financial impact of different levels of increase.

- 11 This gives a total resource availability of £30.271m for 2009/10.

Revenue Budget Requirement 2009/10

- 12 The approved MTFP identified that there would be significant budget gap in 2009/10 and the IRMP consultation took this into account. The IRMP approved by the FRA in December 2008 forms the basis for the budget projections which are built up as follows:
- 13 The 2008/09 core budget was partially funded by one-off use of earmarked reserves, as part of the strategy to allow proper consideration of the impact of future budget gaps.

Forecast Resource	A	30.271
Prior Year Net Budget Requirement		29.311
<u>Add-back funding by using Ear-marked Reserves</u>		
Pensions Earmarked Reserve		0.070
Rank to Role Earmarked Reserve		0.147
		0.217
Underlying Budget	B	29.528
Available Resource	A-B	0.743

- 14 Provision is made for inflation, including the additional cost of the 2008 awards averaging 2.5% against the 2% budget provision. Pay Awards continue to be budgeted at 2% in line with the FRA position on the Chancellor's latest statement on public sector pay. There is considerable risk as in the last 2 years the pay award has exceeded this assumption.
- 15 Similarly; other than for Business Rates where the annual increase is linked to the RPI index at the previous September which was 5.2%; an assumption of a general inflation rate of 1% in accordance with Treasury predictions has been used.

**Hereford & Worcester Fire and Rescue Authority
Budget Committee
28 January 2009**

Forecast Resource	A	30.271
2008/09 Underlying Budget		
Pay Awards and Inflation		
Effect of 2008 Awards at 2.5% (not 2% as budgeted)		0.100
2009 Pay Awards at 2%		0.453
Support Staff Increments		0.010
Other Inflation 1% (Business Rates at 5%)		0.124
		0.687
2008/09 Underlying Budget at 2009/10 prices	B	30.215
Available Resource		
	A-B	0.056

- 16 It can be seen therefore that the resource growth only just covers the budgeted inflationary pressures.
- 17 There are additional unavoidable cost pressures including the consequences of the approved Asset Management Plan and Vehicle Strategy.

Forecast Resource	A	30.271
2008/09 Underlying Budget at 2009/10 prices		
Pensions Build Up		0.041
LGPS increase in Employer's Contributions		0.013
Staff Travel - HQ Relocation		(0.008)
Burden Transfer		0.050
Impact of Asset Management Plan & Fleet Strategy		0.270
Firelink Costs		0.037
Other		0.004
	B	0.407
2009/10 Budget Projection		30.622
Budget Gap		
	A-B	(0.351)

- 18 The figure in relation to Firelink is an informed best guess. There are still considerable un-knowns in respect of overall cost, phasing of charging and ability to distribute between FRAs within the region. There is also considerable difference between what CLG is advising FRAs will be provided by Airwave at no cost, and the contractual position entered into between Airwave and CLG on behalf of FRAs.
- 19 The capital programme provides for continued investment in buildings, training facilities, operational and other equipment to maintain and improve staff safety, either directly or in-directly, and improve the services delivered to the public.

- 20 The revised 2009/10 budget gap of £0.351m down from £0.525m reported in February 2008 and which formed the basis of the financial assumptions underpinning the IRMP consultation was achieved as follows:

	£m
Reported Budget Gap in February 2008	(0.525)
Increases: Cost of Pay Awards over Budget	(0.100)
Net change in inflation	(0.018)
Effect of Interest Changes – Investment and Charges	(0.034)
Reduction in existing tax-base	(0.049)
Sub Total	(0.726)
Reductions: Training Challenges <i>[now being delivered through IRMP]</i>	0.325
Service Contingency	0.050
Revised Budget Gap in January 2009	(0.351)

This gap was closed by decisions made at the FRA Meeting in December 2008.

- 21 The approval of the IRMP at the December 2008 meeting of the FRA resulted in a 2009/10 Balanced Budget of £30.271m representing an overall increase of 3.3%.
- 22 The budget proposal is very tight and contains a number of financial risks which are outlined below:
- a. Pay Award provision in line with Chancellor's limit for public sector pay at 2%. In the past 2 years the actual increase has been nearer 2.5% - costing £0.080m in year
 - b. Other inflation at 1%. Should cost increases be in excess of this, spend will be constrained by the overall budget. However if inflation on actual expenditure does not fall below 2% a further £0.080m would be needed to fund the budget expectation.
 - c. Uncertain costs and timing of Firelink charges.
- 23 Work continues to identify the £0.211m of back office efficiencies, which will have the maximum financial effect balanced by the minimum effect on overall performance. The final budget proposal that will be considered by the FRA on 18th February will clearly identify the specific budget changes necessary to balance the budget.

Capital Programme

- 24 The Capital Programme is based on the approved Vehicle Strategy and Asset Management Plan with the usual annual provision of £0.600m for minor buildings and IT schemes. The revenue consequences are included in the revenue budget proposal.
- 25 In the light of changes approved by this Committee in respect of capital budget monitoring, the Capital Strategy provides for the proposed IRMP Buildings in an illustrative and flexible way, but expenditure will only be incurred when a Business Case is approved.

- 26 In respect of the delayed Pebworth scheme, Members are advised that negotiations to purchase land, subject to planning permission, are underway. As this scheme has already received approval and negotiations are within the budget allocation the scheme will be moved from the Strategy to the Budget when appropriate.

Medium Term Financial Strategy

- 27 Based on the tax-base and precept assumptions outlined in paragraphs 9 and 10 above, and the grant figure for 2010/11 resources of £31.291m are identified.
- 28 However based on the same set of pay and inflation assumptions as for 2009/10 the budget requirement projection also equals £31.291m, assuming no significant unforeseen costs. The slippage of RCC has improved the 2010/11 position significantly. Details are shown in Appendix 1.
- 29 The budget risks identified at paragraph 23 above continue to apply, with added impact of the uncertainty over Firelink charges.
- 30 Projections beyond 2010/11 are limited for a number of reasons:
- lack of knowledge of government's grant intentions under the next CSR round
 - implications of a new grant distribution formula
 - un-certain macro-economic conditions
- 31 Based on the same tax-base, precept increase, pay and inflation assumptions and assuming no worse than a grant freeze a balanced core budget (as shown in Appendix 1) is forecast.
- 32 However, 2011/12 is the year in which H&WFRA is currently scheduled to cut across to RCC. Whilst there are still significant gaps in our knowledge of future costs the latest estimate is of an additional cost in the first year of £0.525m. This may prove to be high if the assumptions regarding realisation of savings prove over-cautious but it is currently the best estimate.

Revenue Balances

- 33 The MTFP budget provides for no growth in or usage of general balances which means that their size in relation to the core budget will decline marginally as shown in the table below.

		2008/09	2009/10	2010/11	2012/13
Core Budget	£m	29.528	30.271	31.291	32.167
balances at start of year	£m	1.259	1.259	1.259	1.259
% of Core Budget		4.3%	4.2%	4.0%	3.9%

- 34 Whilst this build up of balances is desirable, there is an opportunity cost of holding balances. They could be used to finance expenditure or to reduce the Council Tax. precept. The risk is, however, that any unforeseen expenditure could not be met.

Efficiency Gains

- 35 The current efficiency regime runs to the end of 2010/11 and requires the Service nationally to deliver cashable savings averaging 1.5% per year.
- 36 CLG has again indicated that it believes some FRAs have more scope for delivering efficiencies than others, particularly those that were seen to under-perform in the last efficiency round. This has resulted in differential targets being set.
- 37 The recent Audit Commission Report on FRS efficiency identified areas where the Service as a whole could save cumulatively at least £200m. From this data it is possible to estimate how much of the £200m could be applicable to H&WFRA.
- 38 Applying the national figure evenly would result in a cumulative 2009/10 target of £0.850m, but an estimate of the relative target using the Commission Report would give a figure of £0.500m.
- 39 The efficiencies included in the 2009/10 budget total £0.631m.

Capping

- 40 In making the grant settlement announcement the Minister stated that “... the government expects the average Council Tax increase in England to be substantially below 5% andwill not hesitate to use its capping power to protect council tax-payers from excessive increases”
- 41 Capping legislation, however, requires that the expenditure increase is excessive before the Minister can exercise capping powers. If expenditure increases are deemed to be excessive the council tax increase can then be a determinate of capping.
- 42 The present budget proposal is for a budget increase of 3.3% leading to a tax increase of 4.75% arising from the poor 0.7% grant increase.
- 43 Information from 14 of the 24 CFAs indicates an average budget increase of 3.2% and an average precept increase of 4.00%, reflecting the better average grant settlement. Information available for 5 of the “floor” authorities indicates averages of 2.8% and 4.75% respectively.

Recommendation

The Committee is requested to approve the report in principle and recommend that, subject to the tax-base figures being confirmed, that the Fire and Rescue Authority approve the budget and consequential precept.

Appendices

Appendix 1 – Medium Term Financial Plan 2009/10, 2010/11 & 2011/12

Background papers

None

Hereford & Worcester Fire and Rescue Authority
Budget Committee
Medium Term Financial Plan 2009/2010 2010/11 & 2011/12

	2009/10 £m	2010/11 £m	2011/12 £m
Forecast Resource	30.271	31.291	32.167
Net budget Requirement	29.311		
Add back :Use of Ear-marked Reserves	0.217		
Prior Year Balanced Budget	29.528	30.271	31.291
Pay Awards at 2%	0.563	0.498	0.524
Other Inflation 1%	0.124	0.112	0.118
	0.687	0.610	0.642
	30.215	30.881	31.933
Capital Programme			
Impact of Asset Management Plan & Fleet Strategy	0.270	0.302	0.201
Capital Financing - Grant substituting borrowing	(0.040)	(0.049)	
	0.230	0.253	0.201
	30.445	31.134	32.134
Pensions Build Up	0.041	0.025	0.025
LGPS increase in Employer's Contributions	0.013	0.017	0.017
Staff Travel - HQ Relocation	(0.008)		
Burden Transfer	0.050		
Public Surveys - cyclical	-	0.010	(0.010)
Flexible Working Arrangements	0.100		
Other	0.004	0.003	
	0.200	0.055	0.032
	30.645	31.189	32.166
Firelink - net new cost	0.037	0.102	
FireControl - net new cost	-	-	0.525
ISP (RCC) Funding	(0.060)		
	(0.023)	0.102	0.525
	30.622	31.291	32.691
Approved 2009/10 IRMP			
Changes to Establishment(12 Posts)	(0.420)		
Improving Ridership	0.100		
Increase in training establishment	0.180		
2009/10 Back Office Efficiencies	(0.211)		
	(0.351)		
	30.271	31.291	32.691
2011/12 Savings to close budget gap	-	-	(0.524)
Balanced Budget	30.271	31.291	32.167