

ESSEX FIRE AUTHORITY

Essex County Fire & Rescue Service



MEETING

Policy & Strategy Committee

AGENDA ITEM

6

MEETING DATE

23 September 2015

REPORT NUMBER

EFA/076/15

SUBJECT

Medium Term Financial Strategy 2015-20

REPORT BY

The Finance Director & Treasurer

PRESENTED BY

The Finance Director & Treasurer, Mike Clayton

SUMMARY

The purpose of this report is to provide an initial assessment of the financial position of the Authority for the next four years. It is designed to set the boundaries for the affordability test associated with the 2020 Programme, and the Authority's policy towards Council Tax levels. The paper also projects forward funding levels assuming a continuation of the reductions in government funding so that the options available for the Authority to balance its budget over this period can be assessed.

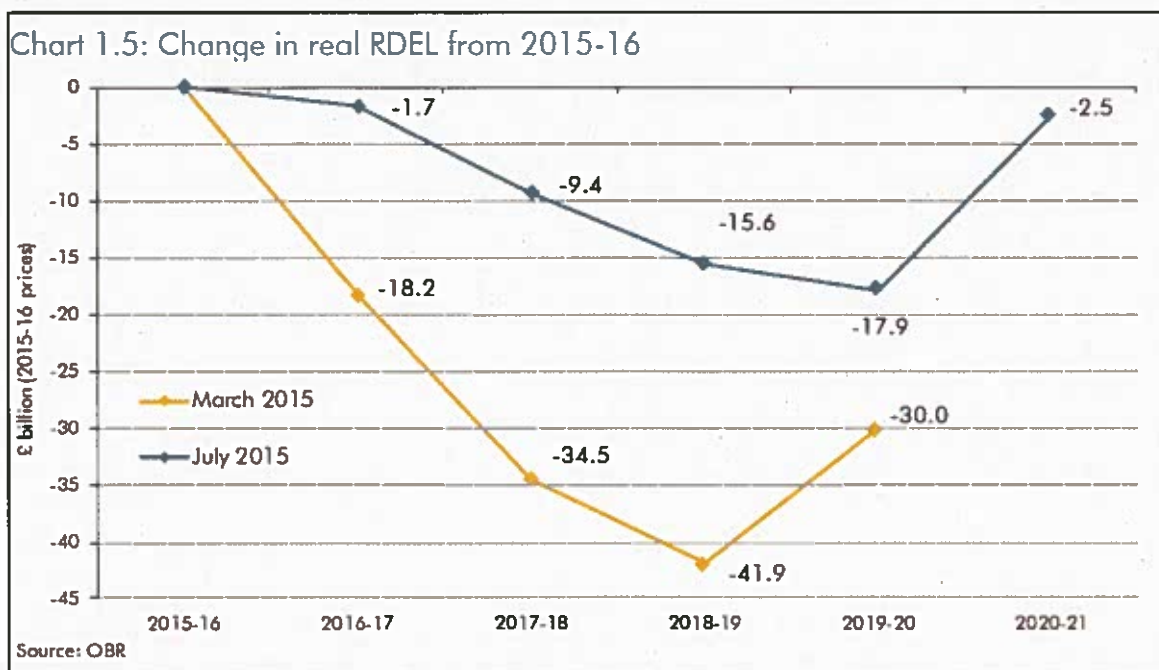
RECOMMENDATION

Members are asked to:

1. Note the range of options for the projected loss in government funding from 2016/17 to 2019/20;
2. Agree that future funding plans should reflect increases in the level of Council Tax of 1.5% per annum;
3. Agree that Service planning for 2019/20 should reflect a complete loss of revenue support grant funding from the government; and
4. Agree that the initial 2016/17 budget should be prepared based on a funded total of £69.145m.

BACKGROUND

Since 2010 the Authority has been able to set a balanced budget through the early identification of savings in its operational and support costs. In April the Authority agreed to



This position does of course reflect the overall position for government spending and there is no certainty that the same profile will be reflected either in the funding for local government as a whole, or for fire in particular. This profile would reduce our government grant by £0.8m in 2016/17 whilst an even reduction in revenue support grant over four years would mean a reduction of £3.4m.

All of these factors mean that there a range of rates at which Revenue Support Grant could reduce. On balance it seems reasonable to expect fire not to receive any protection in the rate or scale of the reduction. Other sectors of local government, such as adult social care have significant funding pressures. In addition, reports such as that by Sir Ken Knight in 2013, and the resilience provided during strike periods by fewer appliances all support the case for reducing funding for fire and rescue authorities.

COUNCIL TAXBASE AND COLLECTION RATES

We are now in the third year since the government implemented changes to the arrangements for council tax support. To date, the collection rates by the billing authorities has been higher than budgeted and in the current year we have a surplus on the collection account of just under £0.75m arising from 2014/15. This represents a 1.9% increase in the taxbase. It is likely that the present economic recovery and the activities of the billing authorities to share best practice in managing the collection, supported by funding from the precepting authorities will ensure that the present growth in the tax base will be maintained over the next few years. For this reason a growth of 1.5% per annum in the taxbase has been assumed.

COUNCIL TAX RATE

The government set a cap on council tax increases of 2% for 2014/15 and 2015/16. The Authority has chosen to freeze council tax since 2010/11 and as a result we receive funding for the continuation of our freeze grants (except 2012/13). The decision to accept council tax freeze grants means that the present Band D rate of £66.42 is 12% lower for 2015/16 than it would have been if the maximum increase had been implemented.

initiate the 2020 programme to redesign the Service to improve community safety in Essex. The changes proposed will be:

- Service Led
- Community Focused;
- Values Driven; and
- Financially Sustainable.

The timescale for the programme means that no decision on the service changes required, the timing of those changes, and the financial impact in 2016/17 and future years, will be made until after the final period of public consultation in June 2016.

For this reason the 2016/17 budget will be drawn up based on the current service structure, incorporating normal business reviews and efficiency savings, but excluding any changes that will be subject to consultation at the time the budget is approved. It is expected that the use of reserves will be necessary to balance this initial budget. Revisions to the budget will be made once decisions on future organisational design and service provision are made in June 2016.

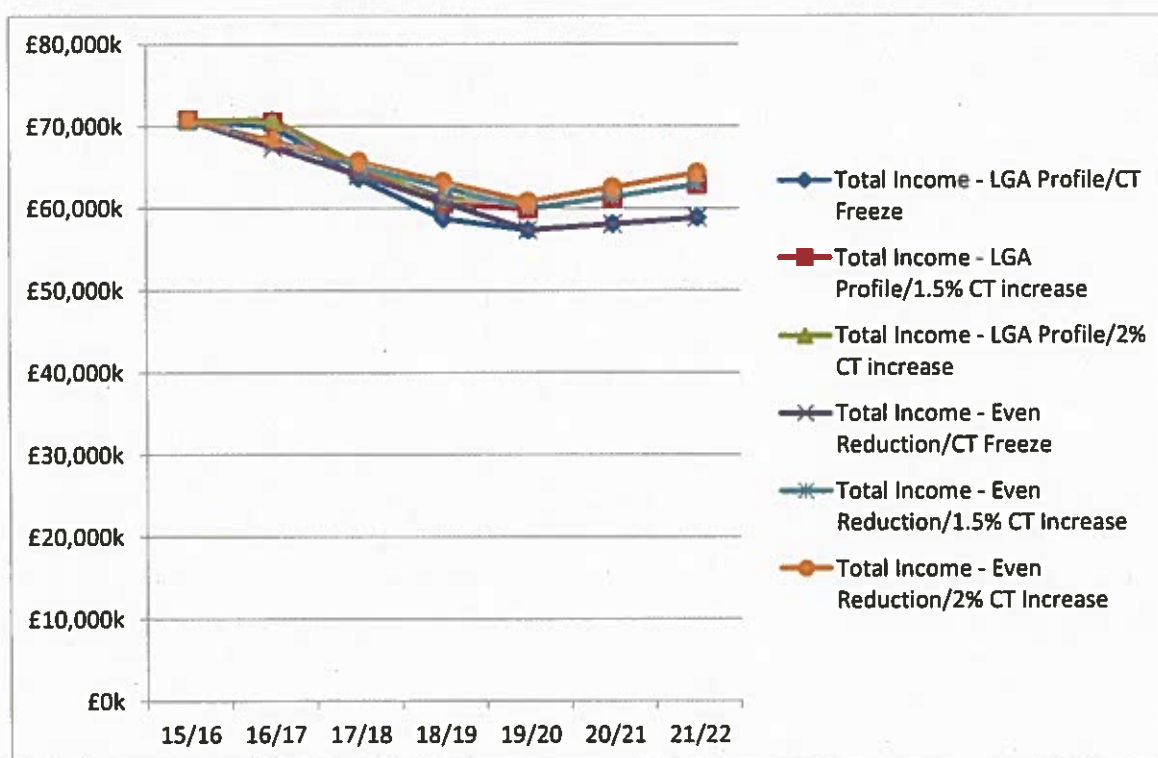
Looking beyond 2016/17 the forward projections in this paper assume that the revenue support grant provided by the government will have been reduced to nil by 2019/20. The 2015 spending review asks government departments to plan for budget reductions of both 25% and 40%. In both scenarios Fire is unlikely to be a priority for funding in comparison with other local government budget pressures. In addition, the experience during the many periods of national strike action in 2014/15 has demonstrated on both a national and local basis that a response service can be delivered with significantly lower levels of resource.

Clearly at this stage in the spending review process the pace of any funding reductions is unknown, and provisional figures for 2016/17 are not expected until late December. The expectation from the LGA is for a small reduction in 2016/17 followed by larger reductions in the next two years. The Chart below shows the position as calculated by the Office for Budget Responsibility comparing the position after the July budget with that before the election in March for government spending as a whole.

Members may be aware that one response to the consultation on the integrated Risk Management Plan has been a postcard campaign that includes a statement saying "I wish for changes to council tax contributions to be fully explored and consulted on with regards to maintaining current levels of fire cover in Essex, Southend and Thurrock". To offset the loss of the current £16.3m in revenue support grant would require a 41% increase in council tax. In any year where the proposed increase was above the government threshold a referendum would be required in each of the 14 billing authority areas, at the Fire Authority's expenses. There are strict regulations governing the information that must be provided and the wording of the question. The first referendum on a council tax increase was held in May 2015, when the Police and Crime Commissioner in Bedfordshire failed to get support for a 15.8% increase in council tax to fund 100 police officers.

There is also the option of the Authority moving away from a freeze in Council Tax and increasing the rate. An increase of 1.5% per annum will increase revenue by £2.4m by 2019/20.

The overall impact of these options is a range of funding scenarios. These are shown in the Chart below:



The range of total income in 2019/20 is between £57.3m and £60.8m, depending on the level of council tax increases assumed. Revenue Support Grant is eliminated in that year for all options.

The average figure for 2016/17 is £69.145m and it is proposed to use this as the basis of budget preparation.

EXPENDITURE PROJECTIONS

The key assumptions on expenditure exclude any decisions associated with the 2020 programme as this will still be subject to public consultation after the budget is set by the Authority.

A number of other changes are reflected in the forecast rate of expenditure, these are:

- Firefighter numbers remain unchanged;
- Higher National Insurance costs from 2016/17 because of the end of contracting out relief;
- Full year impact of Green Book pay scale reviews;
- Reflects the full effect of firefighter pension scheme changes;
- Targeted programme of savings of procurement, back office and support cost savings of £0.5m per annum and
- Pay Inflation restricted to 1% per annum.

Based on the assumptions about firefighter numbers, pensions and the grant forecast, financial projections for the years from 2016/17 onwards have been modelled. The figures only reflect major changes and are in cash terms reflecting the impact of inflation. In summary the forecast changes that impact on each year are shown in the table below:

Table 1- Budget Projections

Expenditure Forecast	16/17	17/18	18/19	19/20
Base Forecast	£72,117k	£72,117k	£72,117k	£72,117k
Normalise - Strikes	-£440k	-£440k	-£440k	-£440k
Green Book Pay scale changes	£250k	£250k	£250k	£250k
Inflation	£700k	£1,400k	£2,100k	£2,800k
National Insurance Increase	£890k	£890k	£890k	£890k
Savings Initiatives (excl 2020)	-£500k	-£1,000k	-£1,500k	-£2,000k
Total Spend	£73,017k	£73,217k	£73,417k	£73,617k
Funding Gap	£3,872k	£8,418k	£12,256k	£14,257k

The funding gap has been calculated based on the average income and funding from the range of options provided. The exact position for 2016/17 will not be known until late December, but the assumption here is that there will be total income of £69.145m in 2016/17.

CLOSING THE GAP – 2016/17 BUDGET

For 2016/17 it is expected that changes brought forward through the 2020 programme will meet the financial sustainability criteria and help to balance the budget. What those changes will be is not yet known, and cannot be anticipated until after the period of public consultation

on the options. The table below shows the level of usable reserves available to the Authority:

	31/03/2015
	£'000s
Earmarked Reserves	7,843
Capital Receipts Reserve	2,020
General Reserve	3,742
Total usable reserves	13,605

In addition, the sale of Hutton, expected towards the end of the current financial year, will also deliver significant additional usable reserves. It seems to be a reasonable approach to plan on using reserves to enable the budget to be set in February with a further review after the Authority considers the responses to the 2020 programme consultation.

The current level of usable reserves would be almost all eliminated by March 2018 if no other changes are made. This indicates the scale of the financial challenge for the Authority over the next few years.

SAVINGS OPPORTUNITIES

Pay costs form the largest single element of the Authority's budget accounting for some 75% of expenditure. There are clearly opportunities to achieve significant savings in staff costs across almost all the areas of activity within the Service. The proposals to be brought forward as part of the 2020 programme will need to deliver around £15m of savings by 2019/20 for the Authority to be financially sustainable.

No single area will enable the savings to be achieved. For example, maintaining a recruitment freeze for firefighters would see numbers fall to an average of 582 in 2019/20 reducing expenditure by around £5.8m. A one third reduction in the costs of green book staff over the same time period would reduce spending by around £3.7m.

Non-staff costs will also have to be considered critically. High spending areas such as property, ICT and fleet will need to reduce expenditure. Clearly proposals to reduce the numbers of appliances or fire stations will be a factor in determining the reductions in expenditure that could be achieved, and this fact will need to be considered as the 2020 proposals are reviewed.

In overall terms, it is clear that the scale of savings needed by 2019/20 is achievable, and that the balance of these across the Service will be a key consideration for the Authority in determining what proposals to consult on in the first few months of 2016. In the meantime, it would be realistic for the Authority to set an initial budget for 2016/17, with a view to revising the expenditure plans once the consultation on proposals has concluded and decisions on the future shape of the Service made.

RISK MANAGEMENT IMPLICATIONS

The purpose of this report is to set out the financial risks to the Authority for the next few years.

LEGAL IMPLICATIONS

There are no legal implications from this report.

FINANCIAL IMPLICATIONS

The financial implications are set out in the report.

USE OF RESOURCES

The Authority's 2020 programme is designed to deliver a strategy and set of proposals to address funding issues over the 2015 spending review period.

EQUALITY IMPLICATIONS

There is no equality Implications associated within this report

ENVIRONMENTAL IMPLICATIONS

There are no environmental Implications associated within this report.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents	
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