FINANCIAL PLANNING 2012/13 ONWARDS

REPORT EXECUTIVE SUMMARY

This report considers the Authority's Revenue Budget for the period 2012/13 onwards.

The report also discusses some of the key issues likely to impact on the Authority's financial position over the short-to-medium term such as the decision on the 2012/13 Council Tax, the External Grant Settlement from Government for 2013/14 and 2014/15 and the delivery of the Strategic Plan 2011-14 and Integrated Risk Management Plan 2011/12 efficiencies agreed on 4 March 2011.
RECOMMENDATIONS

1. That Members note the report and take assurance from the Authority’s proactive approach to its medium-term financial planning.

2012/13 ONWARDS

2. Appendix 1 of this report sets out the latest position on the Authority’s Revenue Budget for 2012/13 onwards.

3. The key assumptions that have been incorporated into the budget are included in Appendix 2 with the most pertinent shown below in Table 1.

Table 1
Assumptions applied to the Medium-Term Financial Plan 2012/13 to 2014/15

<table>
<thead>
<tr>
<th></th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Awards</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Council Tax*</td>
<td>0%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>External Grant**</td>
<td>As notified in Jan 2011</td>
<td>-5%</td>
<td>-5%</td>
</tr>
<tr>
<td>Non-pay Inflation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Utilities/Rates/Fuel</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>- Insurance/Income</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>- Other</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

* As a planning assumption for 2012/13 a freeze on the precept/council tax has been assumed in return for the 3% ‘compensation grant’ from Government. More details are shown on this below and clearly the final council tax decision for 2012/13 will be taken by Members at the February 2012 Fire Authority.

** The External Grant assumptions are in line with the ‘middle’ assumption that Members considered in the report to the September 2011 cycle of meetings.

4. Members will see from Appendix 1 that deficits are projected for 2013/14 and 2014/15. The Authority will however be able to set a balanced budget for 2012/13 but there are a number of factors worthy of further consideration that will have a bearing on the Authority’s finances in the short-to-medium term as follows:-

2012/13 Council Tax Decision


6. In return for holding the 2012/13 council tax at the level of the basic amount of council tax for 2011/12, Fire and Police Authorities will receive a one-off grant equal to a 3% increase in the Authority’s council tax.

7. The difference (and it is a significant one) between the 2012/13 scheme and that offered last year for 2011/12 is that the grant compensation for 2012/13 is for one year only. Compensation for participating in the 2011/12 scheme will be paid to the Authority in each of the years 2011/12 to 2014/15 inclusive.
8. In financial terms a quick comparison for Humberside Fire Authority would be as follows:-

<table>
<thead>
<tr>
<th>SCENARIO A – 2012/13 FREEZE</th>
<th>(£m) 2012/13 Freeze</th>
<th>(£m) 2013/14 2% increase</th>
<th>(£m) 2014/15 2% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Council Tax</td>
<td>22.4</td>
<td>22.848</td>
<td>23.305</td>
</tr>
<tr>
<td>Freeze Grant @ 3%</td>
<td>0.672</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Total</td>
<td>23.072</td>
<td>22.848</td>
<td>23.305</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SCENARIO B – 2012/13 2% INCREASE</th>
<th>(£m) 2012/13 2% increase</th>
<th>(£m) 2013/14 2% increase</th>
<th>(£m) 2014/15 2% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Council Tax</td>
<td>22.848</td>
<td>23.305</td>
<td>23.771</td>
</tr>
<tr>
<td>Total</td>
<td>22.848</td>
<td>23.305</td>
<td>23.771</td>
</tr>
</tbody>
</table>

3 year totals of Council Tax income: Scenario A = £69.225m; Scenario B = £69.924m; Difference £699k over the 3 years

9. Clearly, there is a short-term benefit from the freeze in 2012/13 (3% grant versus a 2% actual council tax increase) but this is overtaken in subsequent years as the increased base from a 2012/13 increase yields benefits in years 2013/14, 2014/15 and beyond.

10. That said, the Authority has to weigh up how council tax increases will be viewed by Government given the ‘offer’ available and therefore also the subsequent shape of any capping regime that may be put in place for 2012/13.

11. At the moment the planning assumption is that the Authority will accept the freeze offer for 2012/13 but it is again reiterated that the final decision will be for Members to agree at the February Fire Authority meeting.

External Grant (Years 2013/14 and 2014/15)

12. Members have received updates previously on the possible scenarios for the 2013/14 and 2014/15 Formula Grant settlement from Government. The September Fire Authority paper outlined three broad scenarios of ‘Upper’, ‘Middle’ and ‘Lower’. This paper concentrates on the ‘Middle’ scenario for simplicity but Members must not lose sight of the fact that the eventual outcome may vary significantly. In order to aid understanding, it’s worth remembering that any change in External Grant up or down by 1% would be circa £240k.

13. In addition to potential significant reductions in External Grant, there are a number of other possible changes to the funding allocation mechanism. Principally, these are:

- Review of the Fire and Rescue Service funding allocation mechanism;
- The localisation of Business Rates;
- The localisation of Council Tax Benefit;
- Community Budget pilots commencing and concluding 2012.

Strategic Plan/Integrated Risk Management Plan Efficiencies

14. A range of measures aimed at improving the Authority’s efficiency and value for money were agreed at the 4 March 2011 Special Fire Authority meeting. The IRMP efficiencies implemented so far will total £2.7m once the full benefits have been realised. The current Medium-Term Financial Plan (MTFP) in Appendix 1 sees these efficiencies achieved as follows:-
<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>1.2</td>
</tr>
<tr>
<td>2013/14</td>
<td>0.4</td>
</tr>
<tr>
<td>2014/15</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.0</strong></td>
</tr>
</tbody>
</table>

15. Clearly, the rate of the achievement of the efficiencies (£2m by close of 2014/15) is constrained in the short-term by the Authority’s retirement profile and level of natural wastage.

16. A further £1.6m of efficiencies relating to the introduction of Residential Self-Rostering were agreed but have not yet been implemented and the details of any such proposal will be subject to Member agreement.

17. The Authority has consistently stated that a prudent position would be to develop a voluntary/compulsory redundancy scheme in 2012 and the speed and degree to which it might then be used will in a large part be determined by the External Grant Settlement due late 2012.

18. The final report in the 2012/13 budget setting process will be brought back to January/February 2012 round of meetings. The final report will also cover the issue of setting the precept/council tax for 2012/13.

STRATEGIC PLAN COMPATIBILITY

19. The Authority’s Medium-Term Financial Plan dovetails with the 2011-14 Strategic Plan and 2011/12 IRMP.

FINANCIAL/RESOURCES/VALUE FOR MONEY IMPLICATIONS

20. The position for the medium-term will be kept under continuous review with regular reports from the Authority’s S.151 Officer.

LEGAL IMPLICATIONS

21. Statutorily the Authority must set a balanced budget. Part of this process also requires the S.151 Officer to comment on the ‘robustness of the estimates’, ‘the adequacy of reserves’ and the ‘in-year budget monitoring arrangements’.

EQUALITY IMPACT ASSESSMENT/HR IMPLICATIONS

22. There are a number of workstreams under the Strategic Plan and IRMP, together with trial structures in place, for example in respect to technical fire safety. Some have resulted in changes to the establishment, i.e. reduction in posts in respect to both operational and corporate support staffing (as previously reported to Members). Thus far reliance has been upon natural retirements and removing of vacant posts. With further workstreams underway aimed at transformation and the likely impact upon staffing, then there will be a need to formally consult in 2012. An early release scheme (early retirement and voluntary redundancy) will be developed and consulted upon during Spring/Summer 2012, in tandem with criteria etc., around compulsory redundancy.

23. Members should note that redundancy is a last resort. However, given the likely financial challenges in years 3 and 4, then it is necessary to have a scheme in place. It is hoped that the anticipated workforce reduction can be achieved through retirement and voluntary release.
24. Members should also note that while the operational establishment has been reduced following the approval of certain parts of the 2011/12 IRMP, this has resulted in supernumerary staff (as opposed to any redundancies proposed). Members will also recall that the power to be able to offer voluntary redundancy to operational (grey book) members of staff is yet to be concluded, with regulation expected sometime in early 2012 which will permit such an invitation to be made.

25. Further more detailed reports will be submitted to the Authority during the Spring cycle of meetings. A full EIA on all proposals will be undertaken.

CORPORATE RISK MANAGEMENT IMPLICATIONS

26. Setting a sustainable and prudent budget for the Authority is fundamental in mitigating one of the key risks in the Strategic Risk Register.

HEALTH AND SAFETY IMPLICATIONS

27. No direct issues arising.

COMMUNICATION ACTIONS ARISING

28. Key messages on the Authority’s financial position that were outlined at the September Fire Authority have been communicated to all staff.

DETAILS OF CONSULTATION

29. The key messages within this report have been discussed at the CMT as a backdrop for future service planning.

BACKGROUND PAPERS AVAILABLE FOR ACCESS


RECOMMENDATIONS RESTATED

31. That Members note the report and take assurance from the Authority’s proactive approach to its medium-term financial planning.

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21 November 2011