

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**15 FEBRUARY 2016**

1. **BUDGET AND PRECEPT 2016/2017 AND BUDGET FORECAST 2017/2018 TO 2019/2020**

Joint Report of the Treasurer and Chief Fire Officer.

RECOMMENDED

1.1 THAT the following be approved:-

1.1.1 The Authority's Net Revenue Budget for 2016/2017 of £97.413m which includes a Council Tax requirement of £37.874m, set out in Appendix A, together with the associated precept levels, set out in Appendix B, resulting in a Band D Precept increase of 1.99%.

1.1.2 The Authority's capital programme for 2016/2017 to 2019/2020 as set out in Appendix E.

1.1.3 The Authority's Treasury Management Strategy which includes the Minimum Revenue Provision Statement set out in Appendix F and the Prudential Indicators in Appendix G.

1.1.4 The Authority accept in principal the offer of a four year financial settlement, as set out in the Final Local Government Finance Settlement on 9 February 2016 and direct the Treasurer to prepare and submit an efficiency plan and any other required documentation to the Home Office as required.

2. **PURPOSE OF REPORT**

The Authority is requested to consider the Capital Programme for 2016/2017 to 2019/2020, the prudential indicators relating to the Authority's capital financing requirements, the Minimum Revenue Provision Statement, the Treasury Management Strategy, the Revenue Budget and to approve the consequent precept level and resultant amount for each constituent District Council.

### 3. **BACKGROUND**

- 3.1 The budget setting process is a key part of the Fire Authority's arrangements which establishes the anticipated level of available funding to deliver its key priorities and services. Work has been undertaken throughout the year to determine the Authority's key priorities, outcomes and strategic objectives to be contained in the 2016–2019 Plan.
- 3.2 On 17 December 2015, the Secretary of State for the Department for Communities and Local Government (DCLG) announced the provisional settlement for 2016/17 at £58.660m, resulting in a core funding reduction of £3.283m. The Government also proposed a referendum threshold of 2% for any Fire and Rescue Authority increasing its Council Tax.
- 3.3 In addition to the provisional settlement for 2016/17, an offer was made for a multi-year funding settlement. Any Authority wishing to take up the four year funding settlement to 2019/20 would be required to set out their proposals in an efficiency plan to qualify for the four year settlement from April 2016.
- 3.4 On 9 February 2016, DCLG confirmed the Authority's 2016/17 core funding, with a slight increase of £5k to the figure announced in the provisional settlement, resulting in total core funding of £58.665m.
- 3.5 The four year settlement offer (provisional for 2017/18 – 2019/20) would result in the following core funding reductions:
- 2016/17 £3.278m
  - 2017/18 £3.985m
  - 2018/19 £1.691m
  - 2019/20 £0.690m

A total reduction over the four year period (2016/17 – 2019/20) of £9.644m (15.6% of the 2015/16 core funding).

- 3.6 The projected budget includes a number of efficiency measures as well as enabling any actions to be undertaken arising out of the Authority's Corporate Risk Register. The Corporate Risk Register has identified a number of major risks that would seriously affect the Authority's ability to carry out its functions. The very nature of the risks have made it extremely difficult to quantify any funding impact that would arise were the risk to materialise and in the short term would result in a demand on the Authority's General Balances, which are identified in Section 6 of this report.

- 3.7 During the financial year 2015/16 only extremely limited recruitment activity for some essential support staff has taken place. No recruitment of firefighters has taken place during the year to date however 15 firefighters were seconded on a temporary basis from Hereford and Worcester Fire Service. This has been in line with the Authority's approach to workforce planning in order to provide appropriate staffing levels to meet the Authority's approved service delivery model. It is anticipated that the suspension on the recruitment of firefighters will remain during 2016/17. Funding levels in future years means that the situation will need to be closely monitored and reviewed.
- 3.8 Details of the draft base budget are set out in Appendix A, together with revisions to the current year's budget (the 2016/17 budget is replicated for information in the Service Reporting Code of Practice format in Appendix C).

### **Business Rates Retention**

- 3.9 The business rate retention scheme was introduced in April 2013 and provides a direct link between business rates growth and the amount of money local authorities have to spend on local people and services. Local Authorities are able to keep 50% of the business rates revenue, adjusted for any growth or reduction on the revenue that is generated in their area. This is intended to provide a strong financial incentive for Authorities to promote economic growth.
- 3.10 The main impact on this Authority is that a proportion of income previously paid by the Government is received via the 7 West Midlands Metropolitan Councils. Under these arrangements this Authority is entitled to a payment equivalent to 2% of the amount of Business Rates retained by the 7 West Midlands Metropolitan Councils. This is approximately £9.4m.
- 3.11 The Chancellor announced in the Spending Review in November 2015 of his intention to localise 100% of business rates to local authorities by 2019/20.

## **Update of 'The Plan'**

- 3.12 A key element of developing the Authority's plans is to seek the opinions of those people that live, work and travel within the West Midlands. As part of this, public consultation is undertaken when changes to the core services are being considered by the Authority. The Authority last consulted the public in February 2014 and this provided the opportunity for the public to influence the way the Service works now. The Community Safety Strategy (the Integrated Risk Management Plan) is the risk analysis which identifies what the risk profile of the West Midlands community is and provides analysis of where resources are required to enable effective management of these risks in order to achieve a five minute attendance standard for the most serious emergencies. Review of this risk analysis has confirmed that there has been no significant change to the risk profile of the West Midlands. Therefore, there will be no significant change to the Authority's priorities and outcomes set out in The Plan 2016-2019 and as such there is no requirement for any associated consultation.
- 3.13 During 2015/16 a series of workshops were undertaken with Members and the Strategic Enabling Team to consider, develop and confirm the refresh of The Plan 2016-2019. As part of this approach Members and the Strategic Enabling Team have agreed the priorities and outcomes for 2016-2017.
- 3.14 'The Plan' sets the Authority's strategic direction for the next three years and defines those outcomes, priorities and strategic objectives which are to be provided with reduced funding and resources.

## **4. PRECEPT 2016/2017**

- 4.1 Under the Council Tax arrangements, the allocation of the total sum required by the Authority between constituent District Councils is based on the relevant tax base for each District.
- 4.2 All District Councils have now formally set their Council Tax base and have notified the Authority accordingly. The total relevant Council Tax base for the Authority is 675,989.47 (659,147.75 in 2015/16).
- 4.3 The appropriate precept has now been calculated for each District and is set out in Appendix B, paragraph 1.4, for the Authority's approval.

- 4.4 The Council Tax at Band D for 2016/17 would be £56.03, an increase of 1.99% (£1.09) per annum.

5. **FUNDING OF EXPENDITURE 2016/2017**

The final figures from external funding sources have now been notified and are included in the table below:

	<b>£000</b>
Formula Grant	58,665
Share of Collection Fund Surplus / (Deficit)	874
Council Tax (met by Districts)	37,874
<b>Total Funding</b>	<b>97,413</b>

In addition to external funding, it is estimated that the Authority will generate income of £2.893m (£2.830m in 2015/16) (Appendix D).

6. **GENERAL BALANCES POSITION**

- 6.1 Based on the current forecast of net expenditure in 2015/16, the Authority's available General Balances at 1 April 2016 are estimated to be £9.2 million. At this level, the amount of General Balances would equate to approximately 9.4% of the Authority's 2016/17 budget.
- 6.2 This level of balances is considered appropriate at this stage due to the estimated scale of government grant reductions in future years. Whilst the four year settlement provides some greater certainty than previously, the figures are indicative at this stage. This is combined with an increase in volatility of Council Tax collection rates for the 7 West Midlands Authorities, particularly following the introduction of the localisation of council tax benefits since 1 April 2013.
- 6.3 The actual level of General Balances at 1 April 2016 will not be determined until the completion of the Authority's 2015/16 closedown of accounts process.

## 7. **CAPITAL PROGRAMME**

7.1 At the Authority meeting on 16 February 2015, consideration and approval was given to the current three year Capital Programme. The Programme has been monitored during the year at Authority meetings.

7.2 It is estimated that commitments in respect of those projects which make up the proposed capital programme, is as follows:

	£m
2016/2017	6.482
2017/2018	10.747
2018/2019	5.134
2019/2020	3.460

The full list of projects is shown on Appendix E.

7.3 A forecast of resources covering the period 2016/17 to 2019/20 is shown below.

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Capital Receipts	1.105	1.000	-	-
Capital Grants	1.025	-	-	-
Revenue Funding	4.352	9.747	5.134	3.460
Total Capital Resources	6.482	10.747	5.134	3.460

7.4 The table below compares the expenditure on those projects within the capital programme which are committed and the projected resources outlined in paragraph 7.3:

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Projected Resources	6.482	10.747	5.134	3.460
Less: Commitments	6.482	10.747	5.134	3.460
Funding (Deficit)/Surplus	-	-	-	-

7.5 At the time of announcing the four year provisional core funding settlement, no specific announcements have been made by the DCLG in relation to capital funding.

## 8. **TREASURY MANAGEMENT AND THE PRUDENTIAL CODE**

- 8.1 The Fire Authority recognises the importance of Treasury Management to the economy and efficiency of its finances. It also recognises that delivering quality services in this area requires expertise and skills that can best be provided by specialist professions from external organisations.
- 8.2 West Midlands Fire Service's Treasury Management functions are provided by Sandwell MBC who have in turn appointed external advisors to support them. The Fire Authority has also linked its appointment of bankers to that of Sandwell MBC in order to benefit from efficiencies in tendering, cash flow management and investment.
- 8.3 The Treasury Management Strategy for 2016/17 is set out in Appendix F.
- 8.4 Under the Local Government Act 2003, credit approvals were abolished and a new prudential capital finance system was introduced from 1 April 2004. CIPFA has prepared a Prudential Code which underpins the system of capital finance. Local authorities are required by Regulation to have regard to the Prudential Code under Part 1 of the Local Government Act 2003.
- 8.5 The key objectives of the Prudential Code are to ensure that the capital investment plans of the Authority are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
- 8.6 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used and the factors that must be taken into account. The indicators are designed to support and record local decision making.
- 8.7 The Prudential Indicators that have been calculated for this Authority are detailed on Appendix G.

## 9. **PLANNING FOR THE 2016/2017 TO 2019/2020 BUDGET**

- 9.1 In preparing the draft revenue budget for 2016/17, an expenditure forecast for 2017/18 to 2019/20 has also been undertaken by 'rolling forward' the 2016/17 draft budget; updating for specific known budget pressures (e.g. the impact of National Insurance increases from April 2016) anticipated inflation and pay awards, adding in commitments, adjusting for anticipated staff turnover levels, setting efficiency targets, etc. (Appendix H).
- 9.2 At this stage the offer of a provisional four year settlement by DCLG is considered to be a reasonable basis to formulate medium term financial planning. In order to take up the four year funding settlement an efficiency plan is required. No details are currently available regarding the format and content of the efficiency plan although it is anticipated the content of Appendix H2 would form the basis of any submission. At this stage it is anticipated that work will focus on alternative staffing models, commissioning, internal restructures and general budget reductions. A summary of the impact of a reduction in core funding is shown in the table below:

### **Estimated position assuming the provisional financial settlement reductions to core funding (with a Band D Council Tax increase of 1.99% per year)**

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Net Budget Requirement	97.4	93.7	93.2	93.7
Core Funding	58.6	54.7	53.0	52.3
Council Tax	37.9	39.0	40.2	41.4
Council Tax Surplus	0.9	0.0	0.0	0.0
Available Resources	97.4	93.7	93.2	93.7
Annual Surplus/(Deficit)	0.0	0.0	0.0	0.0



10. **ROBUSTNESS OF THE BUDGET PREPARATION AND ADEQUACY OF RESERVES**

10.1 In accordance with the Local Government Act 2003 (S25-S27) and to comply with CIPFA guidance on local authority reserves and balances, the Treasurer is required to formally report to members on the robustness of the budget and the adequacy of reserves.

10.2 The budget presented to the Authority has been prepared using reasonable and appropriate estimation techniques for both expenditure and income. The budget process is such that all financial pressures faced by the Authority have been considered and resources allocated as appropriate to fulfil the priorities of the Authority. Where resources have not been allocated to identified pressures either; the pressure has been absorbed into the existing budget or the risk associated with not meeting the pressure has been evaluated and appropriate action taken. The robustness of the budget preparation undertaken by the Authority is therefore considered satisfactory.

10.3 The appropriate level of reserves and provisions has been assessed and determined using a variety of mechanisms, including:

- The budget setting process, the annual financial cycle and contributions from the strategic leadership of the organisation.
- Considering the budget at various stages of construction including the reasonableness of the key budget assumptions such as estimates of inflationary and corporate financial pressures, realism of income targets and the extent to which known trends and liabilities are provided for.
- Review of the movements, trends and availability of contingencies, provisions and earmarked reserves to meet anticipated and unforeseen cost pressures in the context of future pressures and issues.
- The use of professional experience and best professional judgement.
- The use of appropriate professional, technical guidance and local frameworks.

- Knowledge of the Officers involved in the process, particularly finance professionals, including their degree of experience and qualifications.
- Review of the strength of financial management and reporting arrangements including internal control and governance arrangements.

10.4 The Authority's aim is to have a prudent level of general reserves informed by an assessment of potential risks to the organisation. The level of general reserves at the end of the financial year 2015/16 is forecast to be £9.2m and this is approximately 9.4% of the net budget requirement. This level of balances is considered appropriate at this stage due to the scale of core funding reductions in future years and volatility of Council Tax collection rates.

10.5 It was deemed that a prudent level of earmarked reserves was established during the Authority's 2014/15 closedown exercise. A review of these reserves will be undertaken as part of the Authority's 2015/16 closedown of accounts process.

10.6 Based on known circumstances and financial risk assessment, it is felt that adequate earmarked reserves and provisions have been created to meet legal and expected liabilities. As at 31 March 2015 a list of the reserves is included in Appendix J. Consideration will be given to the appropriate level of reserves required as at 31 March 2016 as part of the Authority's closedown of accounts process.

10.7 In recommending an adequate level of reserves, the consideration is given to the opportunity costs of maintaining particular levels of reserves and balances and compares these to the benefits accrued from having such reserves. The opportunity cost of maintaining a specific level of reserves is the 'lost' opportunity, for example, of investing elsewhere to generate additional investment income or using the funds to invest in service improvements. In assessing this, it is important to consider that reserves can only be used once and are therefore potentially only 'one-off' sources of funding. Therefore, any use of general reserves is only ever used on one-off items of expenditure. The level of reserves is also determined by use of a comprehensive risk assessment to ensure they represent an appropriately robust 'safety net' which adequately protects against potential unbudgeted costs.

- 10.8 The current level of reserves is considered to be sufficient in all but the most unusual and serious combination of possible events. In this context it is considered that the current level of reserves presents an optimum balance between risk management and opportunity cost. This maintains a suitable and sustainable level of reserves, which include ensuring sound governance and financial stability in the short and longer term.
- 10.9 Best endeavours have been made to ensure that the budget and reserves are adequate using the information available at this date. The budget has been constructed with a professional policy led medium term strategic framework using appropriate assumptions, linking investment and spending to key priorities and having undertaken a comprehensive assessment of risk.

## 11. **EQUALITY AND DIVERSITY IMPLICATIONS**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out because the matters contained in this report will not lead to and/or do not relate to a policy change.

## 12. **LEGAL IMPLICATIONS**

The course of action recommended in this report does not raise issues which should be drawn to the attention of the Authority's Monitoring Officer.

## **BACKGROUND PAPERS**

DCLG Communications  
Policy Planning Forum 14 December 2015  
District Leaders' Meeting 17 December 2015  
Policy Planning Forum 1 February 2016  
The Plan 2016–2019

The contact name for this report is Phil Hales, Deputy Chief Fire Officer, 0121 380 6907.

PHIL LOACH  
CHIEF FIRE OFFICER

MIKE GRIFFITHS  
TREASURER

**APPENDIX A****SUMMARY OF 2015/2016 REVISED BUDGET AND 2016/2017  
BUDGET**

	<b>Original Budget 2015/16  £000s</b>	<b>Revised Budget 2015/16  £000s</b>	<b>Original Budget 2016/17  £000s</b>
<b><u>Expenditure</u></b>			
Employees	85,570	83,162	83,839
Premises	5,810	5,949	5,453
Transport	1,593	1,404	1,396
Supplies & Services	7,159	7,421	7,825
Capital Financing	3,057	3,000	2,943
Appropriations to Reserves	150	3,481	450
<b>Total Expenditure</b>	<b>103,339</b>	<b>104,417</b>	<b>101,906</b>
<b><u>Income</u></b>			
Core Funding (Formula Grant)	(61,943)	(61,943)	(58,665)
Capital Grant	0	0	0
Other Government Grant	(1,605)	(1,919)	(1,235)
Income from Services	(2,830)	(3,117)	(2,893)
Collection Fund (Surplus) / Deficit	(384)	(384)	(874)
Appropriations from Reserves	(366)	(843)	(365)
<b>Total Income</b>	<b>(67,128)</b>	<b>(68,206)</b>	<b>(64,032)</b>
<b>COUNCIL TAX REQUIREMENT</b>	<b>36,211</b>	<b>36,211</b>	<b>37,874</b>
Collection Fund Surplus / (Deficit)	384	384	874
Core Funding (Formula Grant)	61,943	61,943	58,665
<b>NET BUDGET REQUIREMENT</b>	<b>98,538</b>	<b>98,538</b>	<b>97,413</b>

## APPENDIX B

### BAND D PRECEPT INCREASE OF 1.99%

- 1.1 THAT it be noted that the constituent District Councils have formally set their Council Tax bases for the year 2016/2017 in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 made under Section 33(5) of the Local Government Finance Act 1992 as follows:

	<b>Tax Base</b>
Birmingham	239,042.00
Coventry	77,525.10
Dudley	88,126.08
Sandwell	69,913.98
Solihull	73,456.00
Walsall	67,520.37
Wolverhampton	60,405.94
	<hr/>
	675,989.47
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- 1.2 THAT the following amounts be now calculated by the Authority for the year 2016/2017 in accordance with Sections 40 to 48 of the Local Government Finance Act 1992:

- 1.2.1 **£101,906,000** being the aggregate of the amounts which the Authority estimates for the items set out in Section 42A(2)(a) to (d) of the Act.
- 1.2.2 **£64,032,338** being the aggregate of the amounts which the Authority estimates for the items set out in Section 42A(3)(a) to (b) of the Act.
- 1.2.3 **£37,873,662** being the amount by which the aggregate at 1.2.1 above exceeds the aggregate at 1.2.2 above calculated by the Authority in accordance with Section 42A(4) of the Act as its council tax requirement for the year.
- 1.2.4 **£56.03** being the amount at 1.2.3 above divided by the total amount at 1.1 above, calculated by the Authority in accordance with Section 42B(1) of the Act as the basic amount of its Council Tax for the year.

1.3	<u>Valuation Bands</u>	£ (to 6 decimals)	£ (rounded to 2 decimals)
	A	37.351333	37.35
	B	43.576556	43.58
	C	49.801778	49.80
	D	56.027000	56.03
	E	68.477444	68.48
	F	80.927889	80.93
	G	93.378333	93.38
	H	112.054000	112.05

being the amounts given by multiplying the amount at 1.2.4 above by the number which in the proportion set out in Section 5(1) of the Act is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Authority in accordance with Section 47(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

1.4 Resultant precepts:

	£
Birmingham City Council	13,392,806
Coventry City Council	4,343,499
Dudley MBC	4,937,440
Sandwell MBC	3,917,070
Solihull MBC	4,115,519
Walsall MBC	3,782,964
Wolverhampton City Council	<u>3,384,364</u>
<b>Total</b>	<b><u>37,873,662</u></b>

being the amounts given by multiplying the amount at 1.2.4 above by the appropriate tax base at 1.1 above in accordance with section 48(2) of the Act, as the amount of precept payable by each constituent District Council.

1.5 THAT the precept for each District Council as calculated at 1.4 above be issued in accordance with Section 40 of the Local Government Finance Act 1992.

**SUMMARY OF 2016/2017 BUDGET – SERVICE ANALYSIS**

	<b>1.99% Precept Increase</b>
	£000s
Firefighting & Rescue Operations	101,253
Community Safety	14,308
Corporate and Democratic Core	1,590
Emergency Planning & Civil Defence	114
<b>COST OF SERVICES</b>	<b>117,265</b>
Appropriations and Interest	(20,487)
Government Grant – Section 31	(239)
Settlement Funding (Formula Grant)	(58,665)
<b>COUNCIL TAX REQUIREMENT</b>	<b>37,874</b>

## APPENDIX H

### WEST MIDLANDS FIRE AND RESCUE AUTHORITY

#### NET EXPENDITURE BUDGET FORECAST 2017/2018 TO 2019/2020

	<b>Budget 2017/18</b>	<b>Budget 2018/19</b>	<b>Budget 2019/20</b>
Subjective Heading	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Employees	82,200	82,800	83,300
Premises	5,300	5,300	5,300
Transport	1,400	1,400	1,400
Supplies & Services	6,900	6,900	6,900
Capital Financing	2,900	2,800	2,800
Income	-5,000	-6,000	-6,000
<b>NET EXPENDITURE</b>	<b>93,700</b>	<b>93,200</b>	<b>93,700</b>
Available Funding	93,700	93,200	93,700
Surplus/(Deficit)	0	0	0

#### Note

Budget forecast for 2017/18 to 2019/20 assume:

- A Council Tax increase of 1.99% in each year.
- Achieving the savings identified in Appendix H2.
- Inflation assumptions as shown on Appendix H3.



**SCENARIO ANALYSIS**

At this stage the offer of a provisional four year settlement by DCLG is considered to be a reasonable basis to formulate medium term financial planning. Furthermore, the impact of a further 1% or 2% reduction to the core funding is shown in the following tables.

**Core Funding Reductions**

Financial Year	£ Core Funding	% Reduction	£ Reduction
2015/16	61,943,000		
2016/17	58,665,000	-5.3%	-3,278,000
2017/18	54,680,000	-6.8%	-3,985,000
2018/19	52,989,000	-3.1%	-1,691,000
2019/20	52,299,000	-1.3%	-690,000

**Further 1% Core Funding Reduction in 2017/18 to 2019/20**

Financial Year	£ Core Funding	% Reduction	£ Reduction
2016/17	58,665,000		
2017/18	54,093,000	-7.8%	-4,572,000
2018/19	51,879,000	-4.1%	-2,214,000
2019/20	50,685,000	-2.3%	-1,194,000

## Further 2% Core Funding Reduction in 2017/18 to 2019/20

Financial Year	£ Core Funding	% Reduction	£ Reduction
2016/17	58,665,000		
2017/18	53,506,000	-8.8%	-5,159,000
2018/19	50,781,000	-5.1%	-2,725,000
2019/20	49,104,000	-3.3%	-1,677,000

The provisional four year settlement is an indication of further reductions in future years. However, should the core funding reductions in 2017/18 to 2019/20 be 1% lower than currently indicated, the table below shows the impact of the reductions.

Financial Year	£ Core Funding	% Reduction	£ Reduction
2016/17	58,665,000		
2017/18	55,266,000	-5.8%	-3,399,000
2018/19	54,110,000	-2.1%	-1,156,000
2019/20	53,947,000	-0.3%	-163,000