AGENDA ITEM:

REPORT TO: Meeting of the	**MERSEYSIDE FIRE & RESCUE AUTHORITY**
DATE:	**3rd DECEMBER 2013**
REPORT NO.	**CFO/139/13**
REPORTING OFFICER:	**DEPUTY CHIEF EXECUTIVE**
CONTACT OFFICER:	**DEPUTY CHIEF EXECUTIVE**
OFFICERS CONSULTED:	**STRATEGIC MANAGEMENT GROUP**
SUBJECT:	**UPDATE ON FINANCIAL POSITION**

THERE ARE NO APPENDICES TO THIS REPORT

Purpose of Report

1. To provide Members with an update on the financial position based on the latest confirmed Government announcements in order for the Authority to consider strategic options to address the likely future financial challenge.

Recommendation

2. Members note the report and use the information to consider strategic options that will allow balanced budgets to be set in the future.

Executive Summary

Members had previously set a balanced financial plan to 2014/15 that included a reduction from 42 Fire Appliances to 28.

There have been a number of announcements that have affected the financial plan and given greater clarity around the on-going financial challenges for 2015/16 and beyond. These are:-

- Local Government Finance settlement 14/15 and 15/16 technical consultation
- Announcement over Council tax referendum limits
- Pensions Changes that affect employers NI costs

The report also considers the prospects for Local Government Grant, Council Tax and inflation in the midterm. Based upon the information available three scenarios are modelled:-

a) A forecast for 2015/16 based on confirmed announcements that indicates a

minimum deficit of £6.5m to deal with by 2015/16

b) The forecast further extended into 2016/17 (assuming any new Government continues the spending plans set in place prior to 2016/17), which suggest the challenge would grow to £9.1m by 2016/17

c) A model to 2020 based on LGA modelling around on-going grant cuts that suggest the overall challenge would be in excess of £20m by 2019/20

Future Large scale savings will inevitably:-

- Require reductions in the number of staff employed, both Firefighter and non-uniformed.
- Impact on front line service delivery.

Elsewhere on this agenda report CFO/136/13 considers how this scale of saving requirement might impact on operational delivery, given that the Authority is now in a situation whereby it has 28 appliances operating from 26 fire stations.

Members are asked to note the report and use the information to consider budget options to meet future challenges.

Introduction and Background

3. Members will recall that they set a balanced budget in February 2013 for a two year period from 2013-2015 based on the information available at the time. The plan delivered £10m of savings. Those savings options were made up of £7m from back office and technical areas and £3m from front line operational response. The operational response change was delivered by reducing from 42 fire engines to 28 across the Authority's 26 fire stations. This balanced position is the starting point for considering future challenges.

4. The Government has made a number of announcements that affect that financial plan and/or begin scaling the financial challenge for 2015/16 and beyond. This report will consider those issues in detail.

Local Government Finance settlement 14/15 and 15/16 technical consultation

5. On 26th July the Government announced a technical consultation on the finance settlement for 2014/15 and 2015/16. The consultation paper, together with supporting documents can be found at http://www.local.communities.gov.uk/finance/1415/sumcon/index.htm.
   The announcement was useful for financial planning as it gives specific grant figures at an Authority level for 14/15 and 15/16. This paper is prepared on the assumption that the figures will not change following the consultation process. The final announcement is expected towards Christmas time 2013.

(a) <u>2014/15</u>

Grant funding has been cut by a further 1% in line with the Chancellors announcements and the safety net top slice increased. This requires the Authority to make additional savings of £407k to balance the 14/15 position over and above the £10m already planned.

In addition there were further technical assumptions that may yet affect the authority budget for 2014/15:-

(i) The Government has set aside more money in the safety net, based on Council returns to date. The safety net is to protect Authorities with more than a 7.5% loss in local business rates.

(ii) The Government has assumed the business rates total will increase by 2.8% in 2014/15. There is no guarantee that this is the position in Merseyside.

(b) <u>2015/16</u>

The Government has announced indicative grant figures for 2015/16. The cash cut in 2015/16 is 8.4% (10% in "real terms"). This cut is not just being applied to old grant, but the new total including the Council Tax Benefit Localisation Grant. This equates to a further grant reduction of £3.412m in a single year from revised 2014/15 figure.

The Government has assumed inflationary growth in business rates. If the local business rates growth varies from Government forecast inflation growth Merseyside may be better/worse off.

There are no changes proposed to distribution methodologies for grant.

6. The Government has top sliced some monies from the funding total available for fire and rescue services and has indicated that it will introduce :-

- a resource fund (£30m) and
- a capital fund (£45m)

7. However these sums cannot be relied upon for medium term financial planning because :-

- It is understood there is a need to bid for these resources and there is no guarantee that any authority will get 'its share' or indeed 'any share' of resource from that bidding process.
- It is understood that these are short term resources (one year) only.
- Capital funds are for capital projects only and cannot be used in support of revenue budgets.

Council Tax

8. The Government has indicated that the “referendum” level for 2015/16 (and 2014/15) is set at 2%. In the financial plan the Authority had originally assumed 4% for 2015/16. Presuming that the Authority would wish to continue setting council tax increases at a level just below the level which would require a referendum for approval. This means that the Authority financial plan will be worse off by £460k.

Pension Costs

9. The Government has confirmed that it intends to continue with ending the opt-out arrangements for public sector pension schemes in 2016 which will add an anticipated 3.4% to employers NI bill. The forecast cost to the Authority is £1.0m with effect from 1 April 2016.

10. The Local Government Pension Scheme is anticipating increased employer contribution costs of about £0.2m p.a. from 2014/15.

Inflation

11. Members will recall that they have currently assumed on-going pay restraint in 2014/15 with pay bill increases of no more than 1%. The current financial plan assumes most costs will increase in 2015/16 and future years by 2% per annum adding about £1.5m per year to budgeted costs.

Beyond 2015/16

12. Clearly making definite future predictions is challenging but the current Chancellor has recently been quoted on his approach as follows :-

    Speaking at IMF AGM, chancellor says repairing budget deficit will remain priority in December autumn statement. George Osborne has ruled out the possibility that Britain's improving economy will lead to immediate tax cuts or spending increases when he said repairing the public finances would be the priority of the autumn statement on 4 December.

    Osborne Pledges Tories would run U.K. budget surplus by 2020
    Chancellor of the Exchequer George Osborne pledged to run a budget surplus by 2020 to help bring down U.K. Government debt if his Conservative Party is re-elected in 2015.

13. Members will note that there will be a General Election on 7 May 2015 and that a new Government might bring about a change of policy. However the overall position for the economy remains challenging and the Labour Party appear likely to stick to spending plans in place for the first year at least. Ed Balls was quoted recently:-

“We stand to inherit a very difficult situation. After three wasted years of lost growth, far from balancing the books, in 2015 there is now set to be a deficit of over £90bn … We won't be able to reverse all the spending cuts and tax rises the Tories have pushed through. And we will have to govern with less money around. The next Labour Government will have to make cuts, too. Because while jobs and growth are vital to getting the deficit down – something this Government has never understood – they cannot magic the whole deficit away at a stroke."

14. In addition, most independent organisations are expecting funding for Local Government to remain under pressure for some substantial time. The Institute for Fiscal Studies has said to expect further real cuts to departmental spending to come in 2016-17 and 2017-18*. ”Without tax increases or welfare cuts then if NHS, schools and aid still protected, ‘unprotected’ resource DELs would face cumulative cut of 31.5% since 2010-11”*

Assumptions for Future years

15. In light of the issues above members might wish to consider the following:-

Key issue	Assumption
Grant	Based on a straight line trajectory for cuts in grant funding, the reduction in 2016/17 alone would be 5%. The LGA have done some modelling that 7% cash cut per annum from 2016/17 until 2020 might be one possible scenario.
Council Tax	It would seem reasonable to expect restraint on council tax to remain in place for the foreseeable future and to assume growth of no more than 2% p.a. (in line with inflation assumptions)
Pay and Price Increases	Assume Growth in the mid-term in line with Treasury CPI Targets of 2%

Overall Impact of the Issues Identified

16. In order to assist members scale the potential challenge arising from these scenarios this paper will model three three potential scenarios which were presented to members in more detail at the recent strategy day on 19th November. These will be considered in more detail as we approach the budget setting process.

    The scenarios are:-

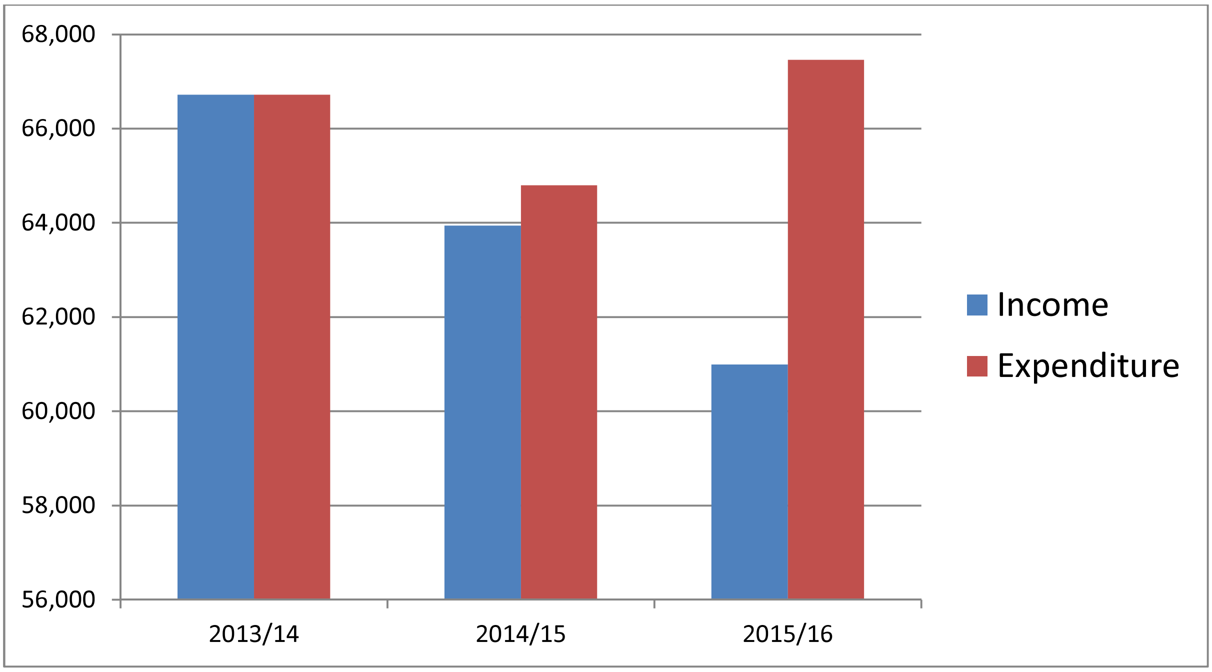
    d) A forecast for 2015/16 based on confirmed announcements
    e) The forecast further extended into 2016/17 (assuming any new Government continues the spending plans set in place prior to 2016/17)
    f) A model to 2020

a) A forecast for 2015/16 based on announcements

The confirmed announcements that we will have to deal with are:-

- Grant (announced for consultation) for 2014/15 and 2015/16
- Council tax referendum limits set at 2%
- Opt out for pensions from 1 April 2016.
- Local Government pension scheme costs

This would make the minimum possible deficit to deal with of £6.5m by 2015/16

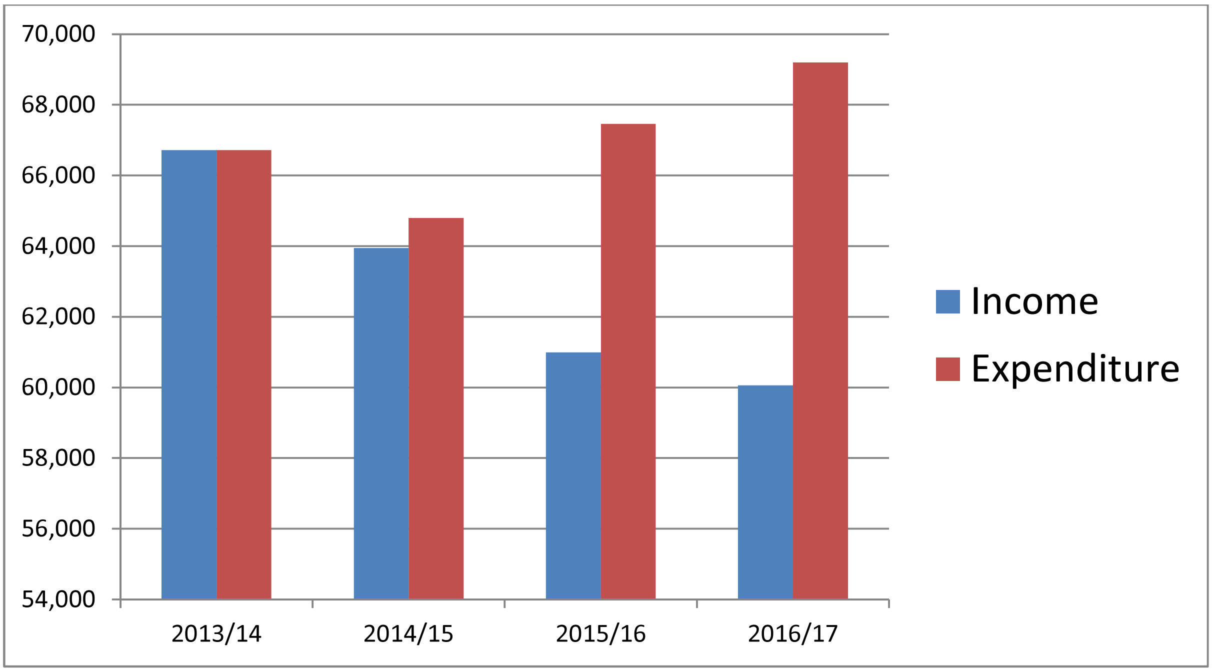


b) The forecast further extended into 2016/17

This scenario considers the announcements made by the Government to date as above and adds in:-

- Allowance for increases in pay and prices in 2015/16 and 2016/17 at 2%
- Assumption that there will be a further 5% reduction in grant funding in 2016/17 based on the fact that the Government has suggested a "straight line" of cuts continuing into that year to address budget deficits.

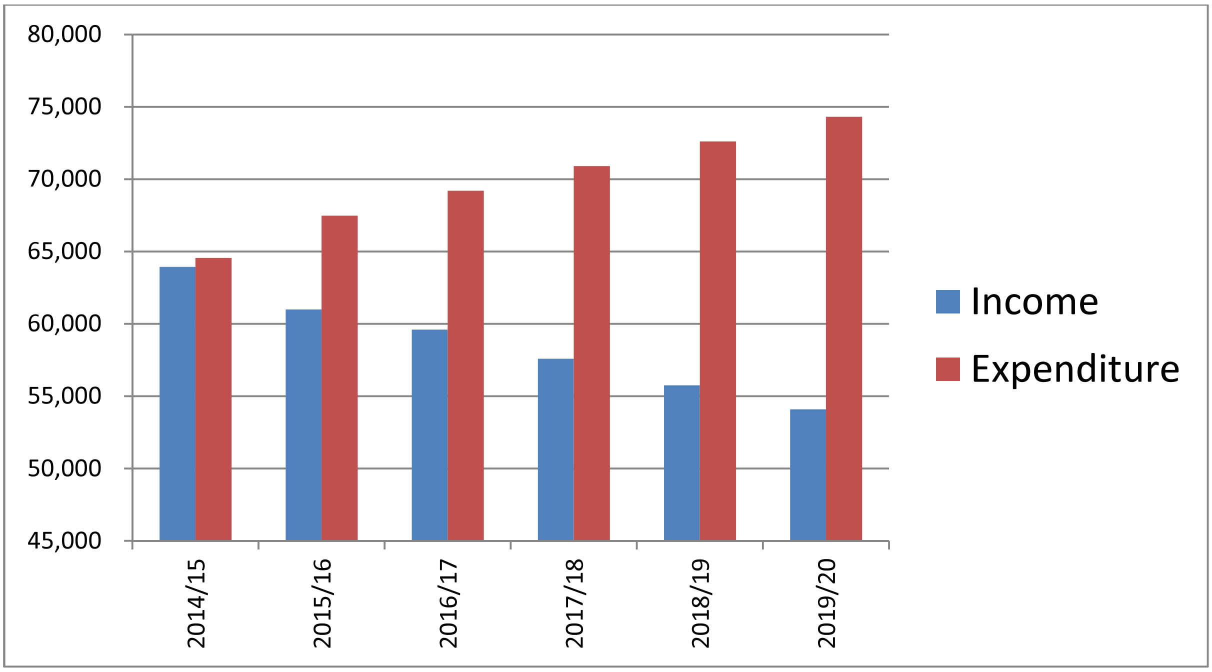
Then the overall forecast budget deficit the Authority will have to bridge is now estimated at £9.1m until 2016/17. It should be recognised however that there is some uncertainty around pay and pension costs in particular which may serve to exacerbate the situation.



c) A model to 2020

In the absence of a change of Government policy, it is highly likely that cuts in public spending will continue until 2020. Based on LGA assumptions around the trajectory of cuts in spending beyond 2015/16 the Authority may face a £20m real terms cut by 2020 after allowing for:-

- All Government announcement already made
- 7% per annum grant cuts in line with LGA forecasts
- Inflation at 2% p.a
- Council tax increases at 2% p.a

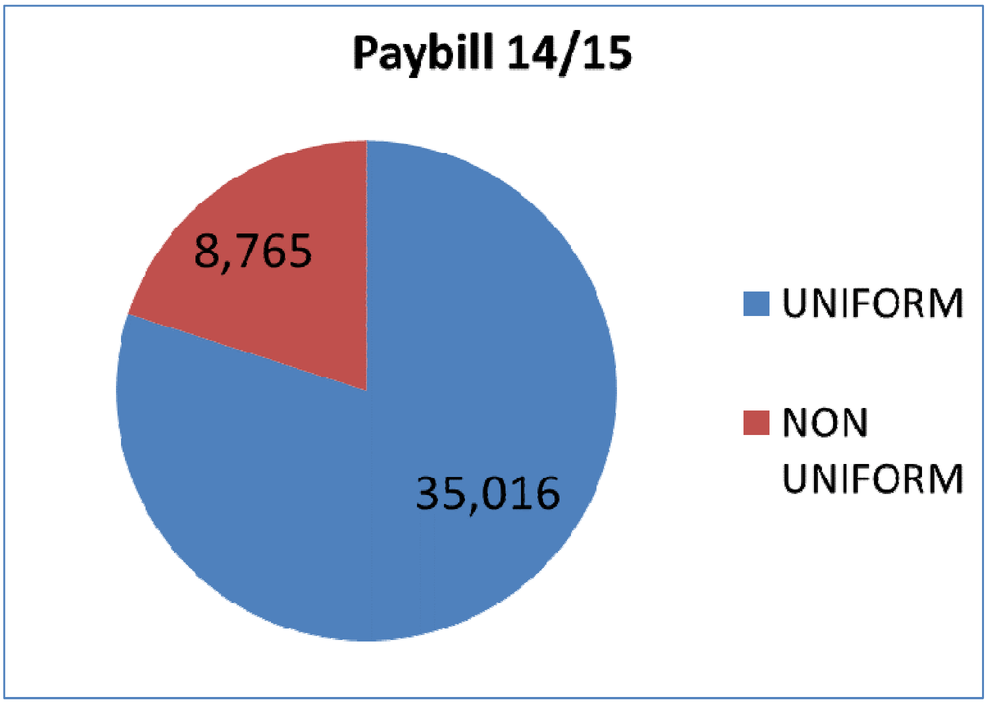


Implications of this scale of cut

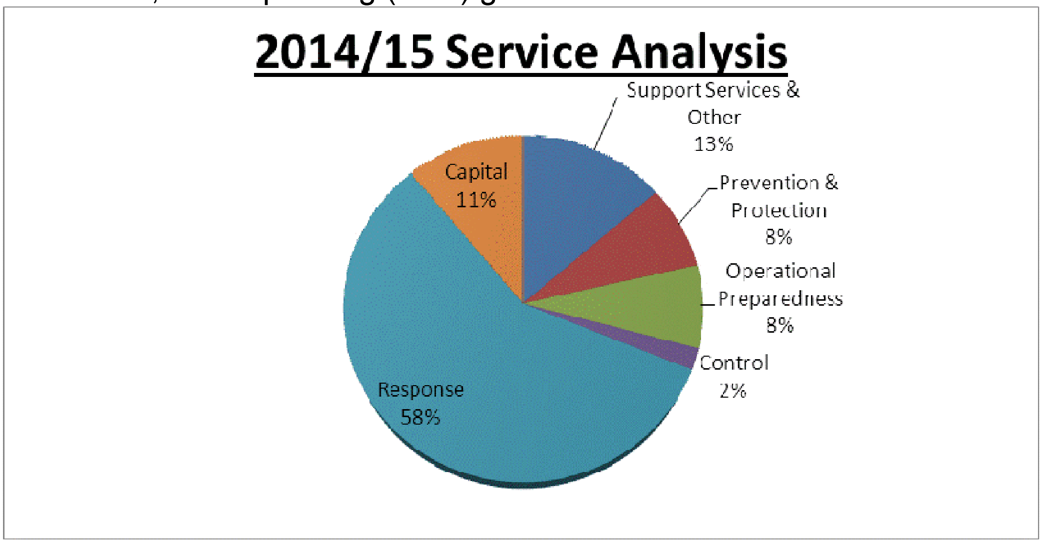
17. Members will note that even the most optimistic scenario above (based only on firm announcements to date) anticipates a real terms cut of at least £6.5m by 2015/16.

18. Whilst every effort will be made to maximise technical and support service savings, cuts on this scale are such that they cannot be achieved without further reductions in staff, since staffing costs make up 68% of the Authority budget.

19. Within that staffing budget the majority (£35m of £44m) goes on Firefighters pay:-



In addition, most spending (76%) goes on the front line services:-



20. Large scale savings will require:-

- reductions in the number of staff employed, both Firefighter and non-uniformed.
- an impact on front line delivery

21. As an example, even if it were possible to deliver further savings in support services or technical areas of say £3m (which would be a very large challenge because of efficiencies already delivered.) This would still mean that a reduction of about 100 Firefighter posts £3.5m would be required from firefighting posts based on the 'best' model scenario considered in this paper.

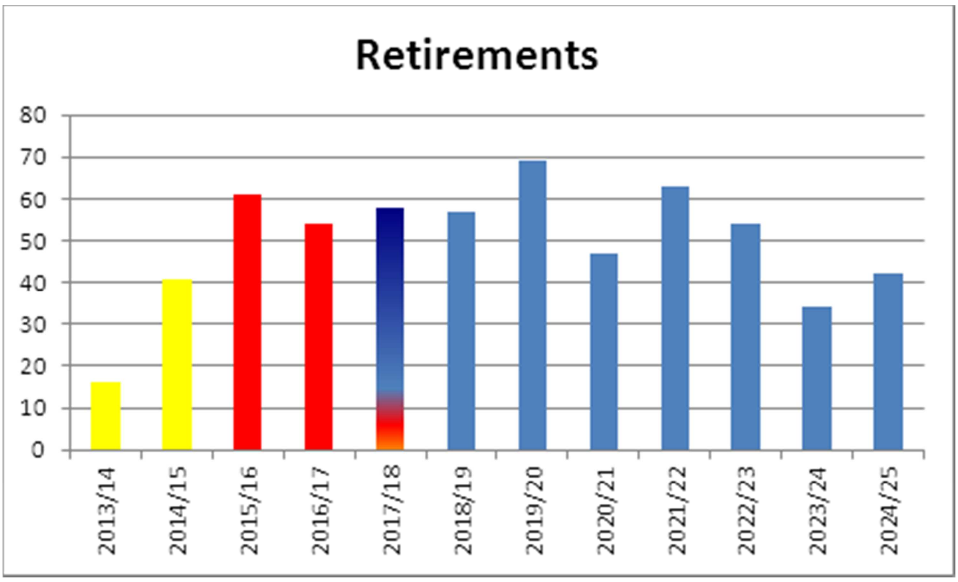
22. Elsewhere on this agenda report CFO/136/13 considers how this scale of saving might impact on operational delivery, given that the Authority is now in a situation whereby it has 28 appliances operating from 26 fire stations.

<u>Avoiding redundancy</u>

23. The Authority is committed to attempting to avoid compulsory redundancy wherever possible. In relation to Firefighter numbers there is a natural retirement rate that will in the mid-term deliver any savings required, however this will take several years to achieve if the Authority maintains its commitment to avoid redundancy.

24. Reserves will be needed to support budgets in 2015/16 and 2016/17 to avoid compulsory Firefighter redundancy.

25. The table below details the current forecast of the firefighter retirement profile.



26. In yellow are the numbers of Firefighters retiring which are already ‘committed’ to meet the current financial plan to 2014/15 (not fully achieved until just into 15/16).

27. In red are the retirements required for an assumed further reduction of, as an example, 150 posts. If it were necessary to “commit” this level of retirements to use natural turnover to deliver savings it would take until 21017/18 to deliver.

28. In total (assuming this is correct) the Authority will need significant reserves to cover the surplus of firefighter posts across the five year period to avoid compulsory redundancy.

29. Based upon the profile above, the Authority will however need to recruit significant numbers of firefighters by 2023 even if savings are delivered so in addition would also probably want some reserves to assist with recruitment.

Equality & Diversity Implications

30. The impact of specific cuts to be considered by the Authority in response to financial challenges will have full EIA’s.

Staff Implications

31. Staff will be consulted on all of the options directly and through the Representative Bodies.

Legal Implications

32. The Authority is legally required to set its budget and financial plan by the end of February 2014.

Financial Implications & Value for money

33. All the financial implications are dealt with within the body of this report.

Risk Management, Health & Safety, and Environmental Implications

34. It is important that increasingly limited resources are allocated in a way to minimise risk and keep firefighters and communities safe.

Contribution to Our Mission – To Achieve; Safer Stronger Communities – Safe Effective Firefighters”

35. Reductions in the resources available will inevitably impact on the service to Merseyside. It is important that increasingly limited resources are allocated in a way to minimise risk and keep firefighters and communities safe.