

LEICESTERSHIRE

FIRE and RESCUE SERVICE

Status of Report: Public Agenda Item: 7

Meeting: Overview and Scrutiny Committee
Date: 28th January 2015
Subject: Local Government Finance Settlement
Report by: The Chief Fire and Rescue Officer and the Treasurer
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For: Decision

1. Purpose

The purpose of this report is to advise the Overview and Scrutiny Committee of the Combined Fire Authority's (CFA's) Revenue Spending Power and projected income for 2015/16 and its probable implications for the Medium Term Financial Plan (MTFP) for 2015 – 2020. It also seeks a decision concerning the level of the 2015/16 Council Tax and whether to increase it or to accept the freeze grant offered by the Department of Communities and Local Government (DCLG).

2. Executive Summary

- 2.1 The illustrative Local Government Finance Settlement for 2015/16 was initially announced by DCLG on the 5th February 2014, with a provisional settlement being received by the CFA on the 18th December 2014. The provisional settlement shows an overall reduction in Revenue Spending Power across all Councils of 1.8%, with the CFA's Settlement Funding Assessment showing a further reduction of 0.6% (£103,179). Of the total reduction, £35,050 is attributable to Revenue Support Grant and £68,129 to Baseline Funding Level (Business Rates). No illustrative details were provided in the provisional settlement about the settlement for 2016/17.
- 2.2 Future funding assumptions based on updated information are being reviewed as part of the formal budget setting process. DCLG informed the CFA on the 17th October 2014 that a bid for Fire Transformation Fund 2015-16 capital grant had been unsuccessful. They also informed the CFA of a reduction in Section 31 grant for Urban Search and Rescue (USAR) on the 24th November 2014. From all of this information with appropriate assumptions it has been possible to draft an estimate of the CFA's Revenue Spending Power for 2015/16.
- 2.3 The CFA on the 14th February 2014 set a total gross budget requirement of £38,349,670. After carefully considering all of the options available to it, the CFA set its eleventh Council Tax at £59.25 for a Band D property (a 1.5% increase). The property tax base for 2014/15 was 289,452.42. In total a sum of £17,150,635 was due to be raised from the Council Tax in 2014/15 with a further £255,963 arising

from the 2013/14 Collection Fund Surplus.

3. Report Detail

Revenue Spending Power

- 3.1 The provisional Local Government Finance Settlement proposes how much grant Central Government will give to each Local Authority in England for the next financial year. The Provisional Settlement normally provides data for at least two years, however, due to the impending General Election in May 2015, no figures beyond next year have been provided. The 2010 and 2013 Spending Reviews announced the total Formula Grant all Local Authorities will receive over the next four years. The provisional Local Government Finance Settlement sets out how that grant will be distributed between Authorities in the next financial year in “a fair and sustainable way” and how much each individual Authority will receive. There was a statutory consultation where Councils and other interested groups had the chance to comment on the proposals. This closed on the 15th January 2015. No individual meetings were offered with Ministers. The final 2015/16 settlement will be laid before the House of Commons in mid-February.
- 3.2 In order to understand the political context of the Local Government Finance Settlement for 2015/16 attention has to be given to the CFA’s Revenue Spending Power. DCLG redefined spending power in 2013/14 as an Authority’s total income which is comprised of its Council Tax Requirement, plus its Start Up Funding Assessment (now defined as Settlement Funding Assessment), plus any Specific Grants. In 2015/16 the same calculation applies with a Business Rate Adjustment (to reflect the 2% cap the Government had previously announced in the Autumn Statement rather than the 2.3% increase it should have been), plus it assumes the CFA will take up the Council Tax Freeze Grant offered by DCLG.
- 3.3 For the CFA this concept is represented by DCLG for 2014/15 and 2015/16 in the following manner:

Description	2014/15* £m	2015/16 £m
Council Tax Requirement	17.151	17.300
Settlement Funding Assessment	18.177	16.562
Specific Grants	1.240	1.165
Council Tax freeze grant 2015 – 2016	0.000	0.196
Council Tax freeze grant 2016 – 2017	0.000	0.000
Business Rate Adjustment	0.085	0.119
Revenue spending power	36.653	35.342
Total decrease		-1.311
		-3.58%
Number of dwellings as at September 2014	430,558	430,558
Revenue spending power per dwelling	£85.13	£82.08
Total decrease		-£3.05
		-3.58%
Total decrease for all CFA’s		-2.92%

*DCLG have amended the 2014/15 calculation by adjusting the Settlement Funding Assessment to reflect proposed changes in 2015/16 to employer's pension contributions for the firefighters' schemes and an adjustment to specific grant which is still being investigated.

Settlement Funding Assessment

- 3.4 DCLG funding for the CFA (the Illustrative Local Government Finance Settlement) for 2015/16 was announced on the 5th February 2014. In it the Government redefined the Start Up Funding Assessment as the Settlement Funding Assessment. The Settlement Funding Assessment was comprised of Revenue Support Grant and the Baseline Funding Level. The Revenue Support Grant was funded fully by DCLG and the Baseline Funding Level through Business Rates.
- 3.5 The 2014/15 Settlement is directly comparable to the provisional 2015/16 Settlement as shown below.

	2014/15		2015/16
Revenue Support Grant	£10,154,966	Revenue Support Grant	£8,386,749
Baseline Funding Level	£8,022,199	Baseline Funding Level	£8,175,489
Start Up Funding Assessment	£18,177,165	Settlement Funding Assessment	£16,562,238

In 2015/16 the Revenue Support Grant is £1,768,217 lower offset by an increase of £153,290 in Business Rate income resulting in a reduced Settlement Funding Assessment of £1,614,927 An overall reduction of 8.88%.

- 3.6 Of the 2014/15 Baseline Funding Level £3,210,267 was anticipated by DCLG to be the CFA's 2% share of the redistributed Business Rates. The remaining £4,811,932 was paid from the central pool by Central Government as part of the Finance Settlement. This was in effect the CFA's Top-Up grant. This Top-Up grant is increased to £4,903,880 in 2015/16.
- 3.7 DCLG funding to the CFA can therefore be determined as:

	2014/15	2015/16
Revenue Support Grant	£10,154,966	£8,386,749
Top-Up Grant	£4,811,932	£4,903,880
DCLG Funding	£14,966,898	£13,290,629

In 2015/16 DCLG Funding is therefore £1,676,269 lower.

Business Rates Income

- 3.8 Ten Leicestershire Authorities including all the District and Borough Councils, the City and County and Fire Authority agreed to pool business rates in the Autumn of 2012. The Policy Committee on the 7th November 2012 agreed the proposal to pool business rates and delegated authority to both the Chief Fire and Rescue Officer

and the Director of Finance and Corporate Services, in consultation with the Chair and Group Leaders, to agree the pooling governance arrangements.

- 3.9 The Leicester and Leicestershire Business Rates pool informed DCLG in January 2014 that it wished to end the business rate pool at the end of March 2014. The main reasons for the withdrawal were uncertainties around both business rate policy and regulation, and the probability of future change to business rate liabilities. Included within this was major uncertainty around both the accounting and 'pool' treatment of appeals and compensatory grants. The uncertainties mean that all members of the pool were unwilling to take the risks associated with continuing the pool. All previous members have now indicated to DCLG that they are happy to renew the pool again for 2015/16 after receiving clarification around the implications of the financial settlement.
- 3.10 The CFA's share of locally collected Business Rates in 2014/15 is distributed directly from Billing Authorities and included with the Council Tax Precept payments. DCLG in February 2014 believed that this would total £3,210,267 in 2014/15 based on information received in 2013/14. The Billing Authorities submitted their National Non-Domestic Rates Returns (NNDR1s) at the end of January 2014 and this gave a revised collection total of £3,288,384, an increase of £78,117 on the DCLG figure. The provisional settlement indicates that this local figure is expected to decrease by £16,775 to £3,271,609 in 2015/16 (a 0.51% decrease).

Council Tax Requirement

- 3.11 The 2004/05 budget was the first the CFA set using its new precepting powers. Its precepting income, the Council Tax, comes via the seven District and two Unitary Authorities. The current MTFP assumes a 0.5% increase in the Council Tax base year on year and a 1.5% increase in Council Tax. Thus within the MTFP Council Tax income was £17,150,635 in 2014/15 rising to £17,494,939 in 2015/16 and £17,846,147 in 2016/17. Provisional figures from the seven Districts, Rutland and the City Council indicate a potential increase in the Council Tax base of 2.14%. DCLG have assumed an increase of 0.87%.

3.12 **Council Tax freeze grant**

The Chancellor of the Exchequer announced in June 2013 that the Government intended to make funding available to help Authorities freeze their Council Tax in 2014/15 and 2015/16. The DCLG wrote to the CFA on the 15th January 2014 to set out the terms relating to the 2014-15 Council Tax Freeze Grant. The Local Government Minister announced on the 18th December 2014 that funding equivalent to a 1% Council tax increase would be available as Council Tax Freeze Grant in 2015/16. It is anticipated that the scheme for 2015/16 will closely follow the terms of the 2014/15 scheme. This scheme will be voluntary, will be administered by DCLG and will apply separately to each billing and major precepting Authority in England rather than to each Council Tax bill issued. Funding will be supplied by DCLG to participating Authorities in 10 installments to mirror Council Tax receipts. There is no commitment beyond this settlement to add any allocated Freeze Grant into future funding settlements.

3.13 In 2015/16 the amount an Authority will receive will be equivalent to one per cent of its 2013/14 average Band D amount multiplied by an amended Council Tax base for 2014/15 (which is increased by DCLG as a further 0.87% increase in the base). According to DCLG the CFA would be entitled to £195,541 under the scheme. The MTFP assumed an increase of £344,304 in Council Tax for 2015/16. To take the offer of the grant would therefore decrease anticipated CFA income by £148,763.

3.14 Council Tax referendums

The Localism Act 2011 abolished capping powers and instead introduced provisions for Council Tax referendums, so that local electorates can decide on Council Tax increases above specified levels rather than Central Government. The recent offer of grant to Authorities that freeze or reduce their Council Tax in 2015/16, and the fact that no Council Tax principles are being proposed for Town and Parish Councils in that year, makes it likely, in the view of DCLG, that few, if any Authorities are likely to trigger a Council Tax referendum in 2015/16.

3.15 Schedule 5 of the Localism Act 2011 makes provision for Council Tax referendums to be held if an Authority increases its Council Tax by an amount exceeding principles determined by the Secretary of State and agreed by the House of Commons. Only Authorities which decline the Council Tax freeze grant offer and contemplate setting increases in Council Tax which exceed the principles need concern themselves about the position on Council Tax referendums.

3.16 The Local Government Minister in his statement on the Provisional Local Government Finance Settlement 2015 to 2016 announced that all Local Authorities are required to seek the approval of their local electorate in a referendum if they set Council Tax increases that exceed 2%. The referendum limit has not changed from 2014/15. Authorities will need to take care that they do not inadvertently trigger a referendum by exceeding the relevant principle by some tiny margin – any increase above the relevant principle, even by a fraction of a percentage point, would require a referendum to be held.

Specific Grants

3.17 Specific grants are not technically part of the Settlement but are normally announced at the same time to help Authorities plan. DCLG have announced summary allocations for the Fire Revenue Grant (New Dimensions and Firelink). DCLG wrote to the Chief Fire and Rescue Officer (CFO) on the 24th November 2014 to inform him of the outcome of a joint Government / Chief Fire Officers' Association (CFOA) review of USAR capabilities in England and the impact this will have on grant funding for these capabilities from 2015/16 onwards. It was proposed that annual savings of around £2m across the capability would apply and that each USAR Authority would fund this via a proportionate reduction in their Section 31 grant payment. Accordingly, an amount of £102,560 has been reduced from the CFA's Fire Revenue Grant in 2015/16. The Adjustment for Business Rates was announced on the 18th December 2014. The CFA currently receive four grants (three revenue and one capital) and these and the new grants are detailed below showing the anticipated levels included in the Provisional Settlement:

	2014/15		2015/16	
	£	%	£	%
Fire Revenue Grant				
New Dimensions	999,463		896,899	-10.26
Firelink	264,180		267,857	+1.39
DCLG Adjustment	-23,791		0	100.00
Total Revenue Grants	1,239,852	-1.12	1,164,756	-6.06
Business Rates Adjustment	85,161	+100.00	119,226	+40.00
Capital Grant	1,048,713	0.00	0	-100.00

3.18 Firelink

The introduction of Firelink introduced a net new burden for the CFA. The net new burden was calculated by comparing the difference between the Airwave service costs and the operational costs of legacy wide area radio systems based on cost returns submitted by Fire and Rescue Authorities which were subject to a separate verification check during 2007/08. Net New Burdens are paid by a Section 31 grant for the remainder of this Comprehensive Spending Review period. The grant increased to £264,180 in 2014/15 to reflect price increases agreed in the national contract.

3.19 Capital Grant

In 2014/15 DCLG allocated £18.812m to 15 Fire and Rescue Authorities following the Capital Bid award. A further £51.188m was distributed to all Fire and Rescue Authorities on a population basis as previously, the CFA received £1,048,713 through this method. For 2015/16, £75m of Capital grant was distributed through the Fire Transformation Fund based entirely upon a bidding process. The CFA's bid for £1.24m was not successful. This was challenged by the CFO and the Treasurer, however DCLG have stated that there is no appeal process and that the decision made will not be changed.

CFA Income

3.20 This includes all other locally generated income which includes things like Occupational Health and Prince's Trust income, fees and charges for services provided by the CFA. The other two main areas of income are Radio Mast rentals and Bank Interest. Bank interest is generated through the CFA's Treasury Management activities and is influenced by the amount of cash the CFA has to deposit and the level of interest rates available. All income budgets have been increased by 1.3% (the rate of the Consumer Price Index (CPI) as at October 2014) to reflect the agreed Medium Term Financial Strategy.

Other temporary funding

3.21 This is normally comprised of two funding streams. The estimated surplus or deficits on the Billing Authorities Council Tax and NNDR collection accounts and the use of reserves. The latest estimates (September 2014) of current surpluses from the seven District Authorities, the City Council and Rutland indicate a forecast surplus of

£321,846.

Reserves

3.22 The Local Government Act 2003 requires the Treasurer to report on:

- a) The robustness of the estimates included in the budget; and
- b) The adequacy of the proposed financial reserves.

Central Government believes that those Authorities which have substantial reserves should also consider using these to address short term costs and pressures, and invest now in order to realise savings in the longer term. Currently the CFA has £3.79m in the General Reserve and circa £1.492m in specific reserves. These are being reviewed as part of the budget setting process. The General Reserve can be broken down into the £1.917m CFA contingency fund (5% of the 2014/15 expenditure budget) plus £1.873m of unallocated reserve which can be used to support the 2015/16 Annual Budget and future budgets.

Funding summary

3.23 From the information received to date from DCLG for 2015/16 and from assumptions contained in the MTFP the anticipated funding position of the CFA in 2015/16 can be summarised against the actual 2014/15 budget as follows:

	Actual 2014/15	Estimate 2015 /16
Permanent Funding		
DCLG Funding	£15,001,948	£13,290,629
Business Rates Income	£3,210,267	£3,271,609
Council Tax (Based on the MTFP)	£17,150,635	£17,494,939
Specific Revenue Grants	£1,263,643	£1,164,756
Business Rates Adjustment	£85,161	£119,226
CFA Income	£947,840	£967,030
	£37,659,494	£36,308,189
Temporary Funding		
Business Rates Income (NNDR1)*	£78,117	£0
Business Rates Adjustment (NNDR1)	£104,713	£0
Council Tax Collection surplus	£255,963	£0
Use of reserves	£251,383	£0
	£690,176	£0
Total CFA Funding	£38,349,670	£36,308,189

It is clear that the CFA's permanent funding will reduce by £1.351m in 2015/16. These figures currently exclude the £1.873m of additional unallocated general reserve which has arisen from previous savings and the ongoing review of the revenue budget.

*The Business Rates Income (NNDR1) figures for 2015/16 are based upon returns from the Billing Authorities which are required to be submitted to DCLG by the 31st

January each year. These returns provide the amounts that the Billing Authorities will actually pay for the local element of Business Rates in 2015/16. The actual payments can therefore be different to that provided by DCLG in the Settlement Funding Assessment. Due to the difficulties associated with timing it is intended that this calculation will be submitted as part of an updated MTFP to the Policy Committee in March 2014.

- 3.24 From the information received to date and from assumptions contained in the MTFP if the Council Tax Freeze Grant is accepted the anticipated funding position of the CFA can be summarised as follows:

	Actual 2014/15	Estimate 2015/16
Permanent Funding		
DCLG Funding	£15,001,948	£13,290,629
Business Rates Income	£3,210,267	£3,271,609
Council Tax	£17,150,635	£17,299,817
Specific Revenue Grants	£1,263,643	£1,164,756
Business Rates Adjustment	£85,161	£119,226
CFA Income	£947,840	£967,030
	£37,659,494	£36,113,067
Temporary Funding		
Business Rates Income (NNDR1)	£78,117	£0
Business Rates Adjustment (NNDR1)	£104,713	£0
Council Tax Freeze Grant	£0	£195,541
Council Tax Collection surplus	£255,963	£0
Use of reserves	£251,383	£0
	£690,176	£195,541
CFA Funding	£38,349,670	£36,308,608

It is clear that if the freeze grant is accepted the CFA's permanent funding will reduce year on year by £1,546,427 in 2015/16 based on DCLG figures. These figures currently exclude the £1.873m of additional unallocated general reserve which has arisen from previous savings and the ongoing review of the revenue budget.

Next Steps

- 3.25 The Treasurer has compiled an initial estimate of the likely budget requirements for 2015/16 based upon key financial priorities and this will be considered by the Senior Management Team on the 26th January 2015. The CFO will have to ensure that the budget proposals put forward to the CFA for consideration delivers the CFA's local priorities and the national agenda. A full presentation will be given to the Overview and Scrutiny Committee today explaining the factors that members will need to consider in setting the budget for 2015/16.

4. Report Implications / Impact

4.1 *Legal (including crime and disorder)*

As this report deals with next year's budget, section 106 of the Local Government Finance Act 1992 will apply to Members in arrears of Council Tax. All other legal implications are contained within the main body of the report.

4.2 *Financial (including value for money, benefits and efficiencies)*

These are included in the main body of the report.

4.3 *Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)*

- a) The CFA has to set a budget for 2015/16 within available resources which ensures that the CFA has sufficient reserves to meet financial risks that might occur. The CFA has to live within its financial resources and there is a serious financial risk if the revenue budget is not managed appropriately. The CFA has to agree the use of any of the Financial Reserves set aside for this purpose in the Annual Budget.
- b) The term "Treasury Management" is defined as "the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with these activities; and the pursuit of optimum performance consistent with these risks." Treasury Management activities are a speculative risk. The purpose of the CFA's Treasury Management Strategy is to define the acceptable level of risk.

4.4 *Staff, Service Users and Stakeholders (including the Equality Impact Assessment)*

Employee costs account for 72.3% of the CFA's 2014/15 revised revenue budget, with a further 1.8% being spent on indirect employee expenses. The restrictions being enforced as a result of budget planning will impact upon these budgets.

4.5 *Environmental*

None.

4.6 *Impact upon Our Plan Objectives*

The delivery of the Our Plan Objectives is to some extent resource dependent and this report is therefore relevant to the achievement of the Our Plan Outcomes.

5. Recommendations

The Overview and Scrutiny Committee is asked to consider the level of Council Tax for 2015/16.

6. Background Papers

- a) Medium Term Financial Strategy 2013/16 (CFA Report – 12th December 2012)
- b) Medium Term Financial Plan 2014-17 (CFA Report – February 2014)
- c) Medium Term Financial Plan 2014-17 (Policy Committee Report – March 2014)
- d) DCLG letter to the Chief Fire Officer re: Fire Transformation Fund Capital Grant (17th October 2014)
- e) DCLG letter to the Chief Fire Officer re: Efficiencies in Section 31 grant payments for all USAR-hosting fire and rescue authorities in England (24th November 2014)
- f) Capital and Revenue Revised Estimate 2014/15 (CFA Report – 10th December 2014)
- g) DCLG e-mail to the Treasurer re: 2015/16 Local Government Finance Settlement (18th December 2014)
- h) DCLG Local Government Finance Settlement Papers (18th December 2014)
- i) Local Government Finance Settlement (Policy Committee Report – 14th January 2015)

7. Appendices

None.