

DERBYSHIRE FIRE AUTHORITY**26 February 2009****Report of the Chief Fire Officer/Chief Executive and Treasurer****REVENUE AND CAPITAL BUDGET 2009-10****1 Purpose of the Report**

This report presents the outcome of the budgetary process for the 2009-10 financial year. It outlines the component parts of the budget and how they fit together. From this members can consider the impact on Council Tax of changes in expenditure, determine the budget requirement and propose a precept from which will derive a Council Tax figure. Indicative budgets for 2010-11 and 2011-12 are also shown.

Also presented is the Authority's proposed capital programme for 2009-12. This will be subject to formal approval in March when the Authority considers a report on the Prudential Code for Capital Finance and Treasury Management. It is included here so that the implications are incorporated into the revenue budget.

2 Final Revenue Support Grant Settlement

- 2.1 The final settlement was announced on 21 January 2009 and as expected for Derbyshire Fire Authority it showed no change from the provisional settlement that was reported to the Finance and General Purposes Committee on 23 January 2009. However the settlement for 2010-11 is still provisional and will not be confirmed until January 2010. Due to the current economic climate it is anticipated that the settlement for 2010-11 could be less than previously published.
- 2.2 Derbyshire Fire Authority still suffers from damping but to a lesser extent than previously as the damping effect is being tapered out so that more of the planned funding increases are being received by the Authority.
- 2.3 Table 1 shows a comparison for Combined Fire Authorities nationally giving percentage increases for 2008-09 to 2009-10.

Table 1 – National RSG Position

| | % increase in 2009-10 |
|---------------------------------|-----------------------|
| Combined Fire Authorities | 2.02 |
| DFA | 4.28 |
| Highest increase (1 Authority) | 4.86 |
| Lowest increase (7 Authorities) | 0.5 |

3. **Council Tax and Precept Position**

3.1 **Collection Fund**

The Authority is entitled to a proportionate share of any surplus on the City and Districts Council Tax Collection Funds. For 2009-10 this is estimated to be a surplus of £35,793. This is a significant increase on the 2008-09 figure of £5,581 with 3 districts estimating surplus, 5 projecting deficits and 1 authority predicting a neutral position. Full details are shown in Appendix A.

3.2 **Council Taxbase/Band D Equivalent Properties**

Council taxbase has increased by 0.538% from 2008-09. This increases the amount raised from the existing level of Council Tax and, together with the Collection Fund surplus, would generate the following increased income for the given increase in Council Tax.

Table 2 – Additional Precept Value

| Increase in Council Tax | Additional Precept Raised |
|-------------------------|---------------------------|
| % | £ |
| 1 | 312,972 |
| 2 | 517,891 |
| 3 | 722,809 |
| 4 | 927,728 |
| 5 | 1,132,646 |
| 6 | 1,337,565 |

4. **Base Budget**

4.1 The 2008-09 budget has been projected forward to account for the impact of price inflation and pay awards, the full year effect of previous year changes and the revenue impacts of the current approved capital programme.

4.2 Details of the changes are shown in Appendix B and summarised in Table 3 below.

Table 3 – 2009-10 Base Budget Requirement

| | £m |
|---|---------|
| Budget requirement 2008-09 | 38.575 |
| Net effect of inflation | 0.977 |
| Full year effect of existing commitments | 0.933 |
| Impact of Approved Capital Programme | 0.859 |
| Adjustments to base (removal of one-off items in 2008-09) | -0.078 |
| Use of balances for RCC & New Dimensions | - 1.292 |
| | 39.974 |

5. Capital Programme

- 5.1 The approved Capital Programme is shown in Appendix C. Provision has been made in the revenue base budget for the capital financing charges arising from the current capital programme, including the full year effect of the 2009-10 programme, totalling £1,954,740.
- 5.2 Capital financing charges now represent 4.8% of the Authority's revenue budget which is considered within prudent limits.

6. Service Developments

- 6.1 The Finance Liaison Group (FLG) has met on five occasions to consider service development bids. The initial list totalled just over £2.8m, with some £1.7m relating to ongoing activities and £1.1m as one-offs. FLG reviewed the list, subjected the bids to robust scrutiny and ranked them as very high, high, medium or low priority. FLG also considered, in the light of the current monitoring and reserves position whether any of those bids could be met from alternative funding sources - uncommitted budget, rescheduling/reprioritising of existing budgets or from reserves.
- 6.2 The following sources were identified as a possibility to fund a number of the bids based on service priorities:

| | £ |
|--|-----------|
| From existing budgets | 96,648 |
| Reprioritised expenditure yet to be determined | 456,080 |
| From reserves | 507,000 |
| From ICT Strategy (Capital Programme) | 46,000 |
| Total | 1,105,228 |

- 6.3 The remaining development items as yet unfunded, categorised by priority are as follows:

| | One-off | Recurring | Total |
|-----------------|----------------|------------------|--------------|
| Priority | £ | £ | £ |
| Very High | | 131,000 | 131,000 |
| High | 364,190 | 958,306 | # 1,322,496 |
| Medium | 127,750 | 25,000 | 152,750 |
| Low | 54,000 | 4,000 | 58,000 |
| TOTAL | 545,940 | 1,118,306 | 1,664,246 |

This includes £338,698 relating to Phase 3 of the Service Development Plan

7. Budget Proposals

- 7.1 The increase in base budget of £1.398m would require, in addition to the increased RSG, a council tax increase of £589,000, more than 2%. To meet any of the service developments summarised in 6.3 will require a Council Tax increase over and above this. In real terms anything less than a 2.4% increase in council tax will result in a cut to service provision.
- 7.2 A 4% increase will deliver only those “very high” and “high” priorities considered absolutely essential. Any increase in council tax above 4% would assist towards financing further service development bids totaling £2.8m which were received by FLG.
- 7.3 Identified in the table below is the impact the percentage increase in council tax will have on our development programme.

| Increase in Council Tax | Service Developments | Growth in Service Development |
|-------------------------|----------------------|-------------------------------|
| % | £ | % |
| 1 | (265,663) | (0.7) |
| 2 | (60,744) | (0.2) |
| 3 | 144,174 | 0.4 |
| 4 | 349,093 | 0.9 |
| 5 | 554,011 | 1.3 |
| 6 | 758,930 | 1.9 |

8. Consultation

- 8.1 A full report on the consultation process precedes this report on the agenda of today’s Fire Authority meeting.
- 8.2 In October 2008 the service organised a number of public consultation exercises on priority spending areas for 2009-10. Six main priority areas had been identified.
- 8.3 In addition a postal survey was sent to 5,650 stakeholders and was also accessible on the Derbyshire Fire and Rescue Service website. Respondents were asked to indicate how strongly they supported each of the priority areas and to rank them in priority order.
- Reducing accidental fires, deaths and injuries;
 - Preparing for major emergencies;
 - Replacement / Upgrading of community fire stations;
 - Improving the overall quality of life in Derby and Derbyshire;
 - Recruiting a more diverse workforce;
 - Road safety.
- 8.4 The response rate for all postal consultation was 22.7%. The response rate from local councils was 31.2%.

Stakeholders feedback identified the following budget preferences in priority order:

1. Reducing accidental fires, deaths and injuries;
2. Preparing for major emergencies;
3. Road safety;
4. Recruiting a more diverse workforce;
5. Replacement / Upgrading of community fire stations;
6. Improving the overall quality of life in Derby and Derbyshire.

8.5 The results of the survey were very positive with support for all areas. The Authority should consider the consultation response in the budget determination.

9. Medium Term Financial Plan

The table below provides indicative budgets for the two years 2010-11 and 2011-12, for which government support has already been announced for 2010-11, although this is not guaranteed. They assume no increase in Council Tax base, minimal Collection Fund surpluses and a 4% increase in the level of Council Tax for the purpose of this exercise. The table illustrates the limit on further development that will occur in 2010-11 and 2011-12 as current commitments flow through, unless significant efficiencies can be found from within existing expenditure. The Fire and Rescue Service nationally has been set a target to achieve efficiencies of 1.6% of revenue expenditure. These efficiencies should be cash releasing.

Table 4 - Medium Term Plan

| Revenue Budget Projection 2009/10 to 2011/12 | | | | |
|---|---------------|---------------|---------------|---------------|
| | £000's | | | |
| | 2008/9 | 2009/10 | 2010/11 | 2011/12 |
| Base Budget | 37,037 | 38,805 | 40,384 | 42,159 |
| Adjustments to base (Pay awards, price increases etc) | 1,345 | 826 | 1,018 | 1,054 |
| Capital Financing (1) | 619 | 281 | 606 | 238 |
| Net Affect of Prior Year Development Programme/Committed Items (2) | (196) | 472 | 151 | (437) |
| Adjusted Base Budget | 38,805 | 40,384 | 42,159 | 43,014 |
| Development Programme | 577 | 349 | 0 | 0 |
| Committed Items - RCC | (45) | 2 | (437) | (145) |
| Committed Items - Other (One Off) | 17 | 1,711 | 0 | 0 |
| Total Funding Requirement | 39,354 | 42,446 | 41,722 | 42,869 |
| Less | | | | |
| Use of Balances (3) | (779) | (2,123) | (162) | 0 |
| External Funding Required | 38,575 | 40,323 | 41,560 | 42,869 |
| Revenue Support Grant | 18,186 | 18,965 | 19,674 | 20,412 |
| Surplus on Collection Fund | 5 | 36 | 10 | 10 |
| Council Tax (4) | 20,384 | 21,322 | 22,175 | 23,062 |
| External Funding Available | 38,575 | 40,323 | 41,859 | 43,484 |
| Limit of Further Developments | 0 | 0 | 299 | 615 |
| This forecast does not take account of any ongoing costs associated with the running of the new Regional Control Centre. | | | | |
| (1) Assumes no additional borrowing in 2010-11 | | | | |
| (2) Assumes cost of RCC implementation will cease in 2010-11 | | | | |
| (3) Assumes a council tax level of 4% for 2010-11 and 2011-12 | | | | |

10. Robustness of Estimates and Reserves

- 10.1 There is a statutory requirement for the Treasurer to confirm the robustness of the estimates and the adequacy of reserves. The Authority must take these matters into account when setting a precept.
- 10.2 The process involved in producing the estimates has taken into account all known financial impacts on the Authority's budget. Inflation has been added based on best estimates and the base budget has been vigorously scrutinised and changes made where necessary. Recent turbulence in the world economy and uncertainty over interest rates is not considered to have a significant impact on these projections as long term interest rates remain below the levels assumed for capital financing charges.

- 10.3 The Authority was able to fund a level of development in the current year but was limited by the impact of damping. The improved position in respect of government funding will allow the Authority to accommodate further service development dependent on the level of increase in the precept and the use of reserves.
- 10.4 The state of earmarked and general reserves is shown in Table 5. There is no statutory requirement regarding the level of reserves that must be maintained. For general reserves the previous external auditor took the view that 5% of net budget was a suitable level, though the new auditor has not yet commented. The Authority is currently maintaining a level of 5% in the general reserve in addition to the strategic reserve which is currently uncommitted. Monitoring throughout the current year has identified opportunities to reprioritise expenditure and this means there is unlikely to be significant sums of uncommitted funds to be added back to reserves. For earmarked reserves it is a matter of judgement based on individual circumstances but once again given the ambitious Capital Programme and service development programme it would be prudent to maintain a reasonable level of balances.
- 10.5 The figures in Table 5 assume a contribution from the Modernisation Reserve of £581,906, part of the £1.5m previously approved to fund RCC/Firelink. It is anticipated that there will be sufficient funds held in reserves to cover any future expenditure relating to the RCC project until the projected implementation in July 2010.

Table 5 - Earmarked and General Reserves

| Revenue Reserves | Balance | Projected | Balance | Projected | Balance | Projected | Balance |
|--|------------------|--------------------|------------------|------------------|------------------|------------------|------------------|
| | 31-Mar-09 | Movement | 31-Mar-10 | Movement | 31-Mar-11 | Movement | 31-Mar-12 |
| Earmarked Reserves | | | | | | | |
| Capital Programme Support | 453,000 | | 453,000 | | 453,000 | | 453,000 |
| Replacement PPE | 545,000 | (545,000) | 0 | | 0 | | 0 |
| RTA Officer Funding | 25,500 | (25,500) | 0 | | 0 | | 0 |
| YSW Year 2 Funding | 26,066 | (26,066) | 0 | | 0 | | 0 |
| HQ Alterations | 64,250 | | 64,250 | | 64,250 | | 64,250 |
| Building Improvements | 35,750 | | 35,750 | | 35,750 | | 35,750 |
| Hostel Refurbishment | 859,464 | (859,464) | 0 | | 0 | | 0 |
| | | | 0 | | 0 | | 0 |
| | | | 0 | | 0 | | 0 |
| Total Earmarked Reserves | 2,009,030 | (1,456,030) | 553,000 | 0 | 553,000 | 0 | 553,000 |
| General Reserves | 2,016,139 | 76,810 | 2,092,949 | 81,251 | 2,174,200 | 86,970 | 2,261,170 |
| Strategic Reserve | 907,529 | 0 | 907,529 | 0 | 907,529 | 0 | 907,529 |
| Modernisation Reserve (RCC) | 1,539,144 | (581,906) | 957,238 | (162,440) | 794,798 | 0 | 794,798 |
| Modernisation Reserve (Other) | 417,199 | (32,837) | 384,362 | (33,658) | 350,704 | (34,499) | 316,205 |
| Total Reserves | 6,889,041 | (1,993,963) | 4,895,078 | (114,847) | 4,780,231 | 52,471 | 4,832,702 |
| Provisions | | | | | | | |
| Insurance Fund - Personal Accident | 43,035 | 2,362 | 45,397 | 2,421 | 47,818 | 2,482 | 50,300 |
| Sub Total | 43,035 | 2,362 | 45,397 | 2,421 | 47,818 | 2,482 | 50,300 |
| TOTAL | 6,932,076 | (1,991,601) | 4,940,475 | (112,426) | 4,828,049 | 54,953 | 4,883,002 |
| This forecast does not include any uncommitted budgets for 2008/09. These will be reported to the Fire Authority in | | | | | | | |

11. Impact of Council Tax Increases

11.1 Identified in the table below is the impact the percentage increase in council tax will have on the range of council tax bands from A to H and the subsequent increase in council tax payable in pence per week.

Table 6 – Cash increase in Council Tax Bands

| Increase in Council Tax | Value of Council Tax Band per Annum (Range from band A to H) | Increase in Council Tax Band per Annum (Range from Band A to H) | Increase in Council Tax Band per Week (Range from Band A to H) |
|-------------------------|--|---|--|
| % | £ | £ | p |
| 1 | 42.40 to 127.20 | 0.42 to 1.26 | 0.8 to 2.4 |
| 2 | 42.82 to 128.46 | 0.84 to 2.52 | 1.6 to 4.8 |
| 3 | 43.24 to 129.72 | 1.26 to 3.78 | 2.4 to 7.3 |
| 4 | 43.66 to 130.98 | 1.68 to 5.04 | 3.2 to 9.7 |
| 5 | 44.08 to 132.24 | 2.10 to 6.30 | 4.0 to 12.1 |
| 6 | 44.50 to 133.50 | 2.52 to 7.56 | 4.8 to 14.5 |

12. Council Tax Capping

If the precept the Authority sets is deemed to be excessive the Minister has powers to:

- Designate the Authority (Cap the Budget)
- Designate for the following year (avoids costly rebilling)
- Set a notional budget to be used for future comparisons
- Designate the Authority over a number of years

In announcing the central government support the Minister confirmed there would be no hesitation to use capping powers where necessary and indicated an expectation that the average Council Tax increase to be significantly less than 5%.

13. Conclusions

- 13.1 To fund the base budget, all the very high priority developments (£131,000) and some of the high priority items (£218,093), as listed in Appendix D will result in a budget requirement of £40,323m representing an increase of £1.747m or 4.53%. With government support of £18,965m this would require a precept of £21,358m. After taking into account the increased level of Collection Fund surpluses notified to us by Billing Authorities and the growth in the overall Council Tax base this would result in a Council Tax increase of 4.0%.
- 13.2 A 4% increase would result in a Band D council tax of £65.52 equivalent to 4.9p per week extra. Almost 2/3 of households in Derbyshire and Derby have properties in bands A or B and would pay less than 4p per week extra.
- 13.3 Council tax increases announced so far appear to be, on average, lower than last year and it is impossible to rule out a cap at a lower level than 5% although it would appear unlikely.

14. Legal Considerations

The Authority has a statutory duty to notify its precepts to Billing Authorities by 1 March 2009 and has no power to issue a supplementary precept.

15. Other Considerations

In preparing this report the relevance of the following factors has been considered: service delivery, health and safety, personnel, equality and diversity, asset management, corporate risk and efficiency.

16. OFFICER RECOMMENDATION

It is recommended that the Authority determine the budget requirement and the precepts to be notified to the Billing Authorities

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