

**DERBYSHIRE FIRE AUTHORITY**

**23 FEBRUARY 2006**

**REPORT OF THE CHIEF FIRE OFFICER/CHIEF EXECUTIVE AND  
TREASURER**

**REVENUE & CAPITAL BUDGET 2006-2007**

**1. Purpose of this Report**

- 1.1. This report presents the results of the budgetary process for the 2006/2007 financial year. It outlines the component parts of the budget, how they fit together and from this the proposals on precepts and Council Tax requirements that arise from them. Indicative budgets for 2007/2008 and 2008/2009 are also shown. Also presented is the Authority's proposed capital programme for 2006/2009; its full relationship with the revenue budget and its sustainability when judged against recommended practice will be dealt with in the medium term financial review to be presented to the Authority in March.

**2 Final Grant Settlement**

- 2.1 The final settlement was announced on 31<sup>st</sup> January 2006. The outcome for this Authority was a reduction of £83,000 on the provisional amount previously reported. The total revenue support available this year is therefore £16.185m which, together with revised amounts from previous years of £0.115m, gives an aggregate of £16.3m. The figure notified for 2007/2008 showed a reduction on the original notification of £255,000. These changes have been brought about by changes in the method of calculation, especially in the damping mechanism used to limit grant loss to Authorities where this has occurred.
- 2.2 The Authority made representations to the ODPM concerning the adjusting amount for the changes in pensions accounting, a shortfall in grant of some £800,000, a concern the ODPM did not share. The Authority also had to bear a grant reduction of £3m for redistribution to Authorities who, by way of the method of calculation, suffered significant grant loss (the damping effect referred to above). The effect has been to seriously curtail the Authority's ability to vigorously pursue its modernisation agenda. Comparative figures are shown in table 1 below;

**Table 1 – DFRS Grant Support Year On Year**

	<b>A 2005/06 actual</b>	<b>B 2005/06 adjusted</b>	<b>C 2006/07</b>	<b>% nominal increase C on B</b>
	£m	£m	£m	%
In year Allocation	18.497	15.486	16.185	4.5
Changes – previous years	0	0	0.115	
<b>Total</b>	<b>18.497</b>	<b>15.486</b>	<b>16.300</b>	<b>5.2</b>

- 2.3 Table 2 shows a comparison for Shire and Combined Authorities nationally giving percentage increases from the 2005/2006 notional amount to the 2006/2007 Formula Grant.

**Table 2 – National RSG Position**

	<b>% Increase in 2006/2007</b>
All County and Combined Authorities	3.2
<b>DFRS</b>	<b>4.5</b>
Highest Increase (2 Authorities)	6.2
Lowest Increase (4 Authorities)	1.5

### 3 **Estimates 2006/2007**

- 3.1 The proposed budget requirement is £34.655m, a reduction on the previous year of £ 0.735m. This has been brought about by changes in the method of accounting for firefighter’s pension costs and the use of balances. When these items are re-instated to create a more comparable figure the notional total is £38.916m giving an increase of around 4% on the previous year.
- 3.2 The details of proposed changes are set out in appendix A and summarised in table 3 below;

**Table 3 – 2006/2007 Revenue Budget Requirement**

	£m
Budget Requirement 2005/2006	35.930
Net Effects of Inflation	0.701
Changes in Pensions Accounting	(2.180)
Continuing Effects of Development	0.116
Capital Finance	0.172
Efficiency Savings	(0.262)
RSG Adjustment Previous Years	(0.115)
Use of Balances	(0.456)
2006/7 Development Programme	0.749
<b>2006/2007 Requirement</b>	<b>34.655</b>

## 4 Service Priorities

- 4.1 The Budget Development Group examined and ranked a considerable number of bids, far in excess of available resources, for service developments which aligned themselves with the Authority's planning priorities.
- 4.2 The result of this exercise is a proposed development programme for 2006/2007 of £749,000, providing additional resources to the areas listed in table 4 below, a fuller description is given in appendix B.

Table 4 – Proposed Development Items 2006/2007

	£000's
Work in the Community	113
Regional Co-operation	46
Human Resources & Training	185
Specialist Equipment	129
ICT	22
Property	87
Strategic Management	111
Communications	56
<b>Total Developments</b>	<b>749</b>

- 4.3 The Authority should note that the outcomes from the review of operational assurance are as yet not yet known. A report on the findings is expected at the beginning of March 2006. The findings may or may not impact on the priorities of the Authority and the proposed development programme detailed in this report. Any recommendations in this respect will be the subject of a further report to the Authority in due course.

## 5 Link to the Capital Programme

- 5.1 The Capital Programme shown at Appendix C impacts upon the Authority's revenue account as a result of capital financing charges. Provision has been made in the revenue budget for the current capital programme together with the costs arising from two additional capital schemes included as development proposals. Also included is the full year effect of the 2005/2006 programme. The effect on the 2006/2007 budget is an additional requirement of £224,000. Projections for a further two years are shown with increases in financing costs of £223,000 and a further £260,000 in 2007/2008 and 2008/2009 respectively.

## 6 The Medium Term

- 6.1 Table 5 overleaf provides in summary form the firm budget proposal for 2006/7 together with indicative budgets for the following two financial years. The projections for 2007/2008 and especially 2008/2009 will be

subject to change as further information becomes available. It will be noted that service development and improvement will be mainly funded by efficiency savings such as the new staffing arrangements on Aerial Ladder Platforms (ALPs).

6.2 It should also be noted that there is no guarantee on the level of revenue support grant funding in 2008/9 and an increase of 2.5% has therefore been assumed. Also assumed is a rise in the Authority's precept requirement of approximately 5% in succeeding years.

Table 5 – Three Year Budget Forecast

Revenue Budget Financial Projections	£000's			
	2005/6	2006/7	2007/8	2008/9
<b>Base Budget</b>	<b>34,477</b>	<b>35,930</b>	<b>35,488</b>	<b>36,521</b>
Pay Awards, Price Increases, Increases in Income	889	701	706	835
Debt Charges for Approved Capital Programme	101	172	223	260
Pensions Costs	218	(2,180)	0	0
Other Exceptional Items; -Other Committed items	(37)	0	0	0
-Net Continuing Effects of Developments	(373)	116	(156)	0
<b>Adjusted Base Budget</b>	<b>35,275</b>	<b>34,739</b>	<b>36,261</b>	<b>37,616</b>
<b>Development Programme</b>	<b>655</b>	<b>749</b>	<b>260</b>	<b>25</b>
<b>Total Funding Requirement</b>	<b>35,930</b>	<b>35,488</b>	<b>36,521</b>	<b>37,641</b>
<b>Less</b>				
RSG Prior Year Adjustments	0	(115)	0	0
Use of Balances		(456)	0	0
Efficiency Savings		(262)	(982)	(1,254)
<b>External Funding Required</b>	<b>35,930</b>	<b>34,655</b>	<b>35,539</b>	<b>36,387</b>
Revenue Support Grant	18,497	16,185	16,920	17,343
Surpluses on Collection Funds	15	79	0	0
Council Tax Precept	17,418	18,391	19,393	20,440
<b>External Funding Available</b>	<b>35,930</b>	<b>34,655</b>	<b>36,313</b>	<b>37,783</b>
<b>Limit of Further Developments</b>	<b>0</b>	<b>0</b>	<b>774</b>	<b>1,396</b>

## 7 Robustness of Estimates & Reserves

- 7.1 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.
- 7.2 The process involved in producing the estimates has taken into account all known financial impacts on the Authority's budget for example inflation, the capital programme, specific grant income etc, and in particular changes in pensions accounting to produce a modified base. Where sufficient funding remains affordable development items have been included. The amount of development is therefore linked directly to levels of increase in the Authority's precept and use of reserves. The process has paid regard, when allocating resources, to the Authority's policies on the developing role of the service and also to open this area of work to member scrutiny by re-establishing the Budget Development Group.
- 7.3 The level of earmarked and general reserves is shown in table 6 below (note the pension provision is no longer required). There is no statute governing the level of reserves. For general reserves our external auditor takes the view that about 5% on net budget is a suitable level; we are currently projecting a level slightly above this. For earmarked reserves it is a matter of judgement and the view taken at the moment is that given the current climate of change and the unfunded costs they may arise a reasonable level of balances must be maintained. Monitoring of the 2005/6 budget against spend indicates that pressure on reserves will not be applied from this area and therefore there is sufficient capacity to release the whole of the transitional funding reserve (£456,000) in 2006/2007.

Table 6 – Reserves 2006/2007

<b>Earmarked and General Reserves</b>				
For the Financial Year 2006/07				
Revenue Reserves	-	Balance 01-Apr- 06	Projected Movement	Balance 31-Mar- 07
<b>Earmarked Reserves</b>				
Transitional Funding Reserve		456,000	(456,000)	0
Pension Transition Reserve		440,354	0	440,354
Pro-Active Health Care		33,557	(15,000)	18,557
ICT Training Strategy		85,000	(60,000)	25,000
<b>Total Earmarked Reserves</b>		<b>1,014,911</b>	<b>(531,000)</b>	<b>483,911</b>
<b>General Reserves</b>				
<b>Strategic Reserve</b>		1,928,900	0	1,928,900
<b>IT Reserve</b>		227,251	0	227,251
<b>Modernisation Reserve (Lump Sum Commutation Provision)</b>		200,000	0	200,000
<b>Sub Total</b>		<b>1,400,000</b>	<b>0</b>	<b>1,400,000</b>
<b>Sub Total</b>		<b>4,771,062</b>	<b>(531,000)</b>	<b>4,240,062</b>
<b>Provisions</b>				
Insurance Fund - Personal Accident		36,000	2,500	38,500
<b>Sub Total</b>		<b>36,000</b>	<b>2,500</b>	<b>38,500</b>
<b>TOTAL</b>		<b>4,807,062</b>	<b>(528,500)</b>	<b>4,278,562</b>

## 8 **Council Tax**

8.1 The Minister has powers under which, if he deems the budget to be extreme, may;

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

Capping would result in rebilling costs of around £400,000.

There have been informal but authoritative indications that increases in excess of 5% could be thought of as excessive.

8.2 The budget requirement of £34.655m could be financed as follows;

Government support	£16.185m
Council tax	£ 18.470m

After taking into account Collection Fund surpluses notified to us by Billing Authorities and the growth in the overall Council Tax Base this results in a Council Tax increase of 4.9% (see appendix D for detail).

## 9 **Other Legal Considerations**

9.1 The Authority has a statutory duty to notify its precepts to Billing Authorities before 1<sup>st</sup> March 2006 and has no power to issue a supplementary precept.

## 10 **Background Papers**

Budget Files

## 11 **Officers' Recommendation**

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

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Derbyshire Fire and Rescue Service Draft Budget 2006/2007

APPENDIX A

Variance between 2005/06 Budget and 2006/07 Proposed Budget

<u>Key Variances</u>	2005/06 Approved Budget £	2006/07 Inflation/Price Increases £	2006/07 Committed Items £	2006/07 Development Items £	2006/07 Pension Changes £	2006/07 Efficiency Gains £	2006/07 Proposed Budget £	Variance (06/07 Proposed to 05/06 budget) £	Variance (06/07 Proposed to 05/06 budget) (%)
Employee Expenses	22,875,846	464,248	102,143	408,228	3,392,036	(448,000)	26,794,501	3,918,655	17.31
Indirect Employee Expenses	895,881	20,974	13,178	0			930,033	34,152	3.81
Pensions	7,898,636			0	(7,212,865)		685,771	(7,212,865)	(91.32)
Premises Costs	1,404,107	130,810		0			1,534,917	130,810	9.32
Transport Related Expenses	2,239,715	102,533		15,000			2,357,248	117,533	5.25
Supplies and Services	2,685,798	127,155		273,866		186,000	3,272,819	587,021	21.86
Third Party Payments	27,071						27,071	0	0.00
External Services	190,105	5,054					195,159	5,054	2.66
Capital Financing Costs	535,557		172,321	52,300			760,178	224,621	41.94
<b>Total Expenditure</b>	<b>38,752,716</b>	<b>850,774</b>	<b>287,642</b>	<b>749,394</b>	<b>(3,820,829)</b>	<b>(262,000)</b>	<b>36,557,697</b>	<b>(2,195,019)</b>	<b>(5.66)</b>
Income	(1,181,884)	(149,467)					(1,331,351)	(149,467)	12.65
RSG Prior Year Adjustments			(115,000)				(115,000)	(115,000)	
Use of Balances			(456,000)				(456,000)	(456,000)	
Pension Contributions	(1,640,525)	0			1,640,525		0	1,640,525	(100.00)
<b>Net Expenditure</b>	<b>35,930,307</b>	<b>701,307</b>	<b>(283,358)</b>	<b>749,394</b>	<b>(2,180,304)</b>	<b>(262,000)</b>	<b>34,655,346</b>	<b>(1,274,961)</b>	<b>(3.55)</b>

Note – The inflation figure for income includes additional specific grants of £111,000 relating to community work and regional control centres.

**Service Developments**

The Fire Authority and its staff continue to pursue the goal of making Derbyshire a safer place to live work and visit. In order to achieve this it is committed to the further development of a broad range of prevention, protection and intervention initiatives.

Service development requires investment and the Budget Development Group, a member and officer forum, has considered a large number of proposals. Those identified as most supportive of the Authority's objectives have been included in the draft budget to a value of £707,000, falling into the following categories.

**Work in the Community (£113,000)**

To support the development of safer communities and to progress work with children and young people:

- Youth development post
- Youth development programme
- Community Strategic Partnership Funding post

**Regional Co-operation (£46,000)**

The Authority's contribution to Regional programmes increases by £46,000 in 2006/2007 with Derbyshire's lead role in fire investigation and assessment development centres. These are both areas where co-operative action achieves efficiency savings.

**Human Resources and Training (£185,000)**

The proposed expenditure relating to this area are;

Training and development posts to support firefighter competency.

Occupational Health initiatives – to help reduce sickness absence.

Firefighters Pensions – The law relating to the provision of an annual statement of entitlement could not be complied with using the old system operated by the County Council for the benefit of both ourselves and the police. Investment in a new system is taking place to which we are making a contribution.

**Specialist Equipment (£129,000)**

Fireground radios and alerters for staff on the retained duty system.



### **ICT (£22,000)**

Hardware and software maintenance.

### **Property (£87,000)**

Property Surveyor (part year) and Administrative Support posts - The management of the property holding of the Authority has become increasingly complex in recent years in terms of statutory requirements, land acquisition and disposal, and a more active capital programme. The Authority's own strategies require a detailed asset management plan and systems to be in place to produce it. The existing structure of the property section provides insufficient staffing resource for this expanded role.

Capital Finance – Expenditure on works at Ilkeston Fire Station, Disability Discrimination Act and refurbishment works are to be capitalised and give rise to additional revenue costs.

### **Strategic Management (£111,000)**

Assistant Chief Fire Officer post (F&GP 13/1/06)  
Principal Officer car scheme (F&GP 13/1/06)  
Local Government Association Membership

### **Communications (£56,000)**

Media and Public Relations  
Organisational Marketing and Communications

For App C see excel sheet

## Council Tax Precept Values 2006/07

	<u>Taxbase</u> <u>(Band D -</u> <u>Equivalent</u> <u>Properties)</u>	<u>Amount</u> <u>Due in</u> <u>Council</u> <u>Tax in</u> <u>2006/07</u> £	<u>Collection</u> <u>Fund -</u> <u>DFRS Share</u> <u>of</u> <u>Surplus</u> £	<u>-</u> <u>Deficits</u> £	<u>Amount</u> <u>Due in</u> <u>Total</u> £
Precept Required for Service Spend		<b>18,391,346</b>	<b>79,117</b>	<b>0</b>	<b>18,470,463</b>
<b>Totals</b>	<b>319,063.44</b>	<b>18,391,346</b>	<b>79,117</b>	<b>0</b>	<b>18,470,463</b>
Amber Valley	39,683.03	2,287,396	12,000	0	
Bolsover	22,287.74	1,284,702	0	0	
Chesterfield	32,086.06	1,849,494	0	0	
Derby City	68,966.00	3,975,314	0	0	
Derbyshire Dales	29,005.53	1,671,927	0	0	
Erewash	34,132.32	1,967,444	5,557	0	
High Peak	31,307.00	1,804,587	0	0	
North East Derbyshire	31,949.86	1,841,643	24,560	0	
South Derbyshire	29,645.90	1,708,839	37,000	0	

### Council Tax Bands

<u>Band</u>	<u>Council</u> <u>Tax</u> <u>2005/2006</u> £	<u>Council</u> <u>Tax</u> <u>2006/2007</u> £
A	36.63	38.43
B	42.74	44.83
C	48.84	51.24
<b>D</b>	<b>54.95</b>	<b>57.64</b>
E	67.16	70.45
F	79.37	83.26
G	91.58	96.07
H	109.90	115.28