

DERBYSHIRE FIRE AND RESCUE AUTHORITY

DATE: 23RD FEBRUARY 2012

**REPORT OF: CHIEF EXECUTIVE/CHIEF FIRE OFFICER AND DIRECTOR OF
FINANCE/TREASURER**

**REVENUE BUDGET 2012/2013 AND THE MEDIUM TERM FINANCIAL
FORECAST FOR 2013/2014 TO 2015/2016**

1. Purpose of Report

1.1 To present proposals for the 2012/2013 Revenue Budget and the medium term financial forecast for 2013/2014 to 2015/2016. It outlines assumptions, including pay and inflation increases, contained within the budget estimates. The report serves to inform and update Members on the following:

- The Local Government Finance Settlement 2012/2013;
- The Proposed Revenue Budget 2012/2013;
- The Capital Programme 2012/2013 – 2013/2014;
- Council Tax and Precepting Options;
- Feedback on Budget Consultation;
- Financial Settlements for 2012/2013 and Future Years;
- The Four Year Financial Forecast;
- The Effectiveness Programme;
- The Robustness of Estimates and Level of Reserves.

1.2 This report builds on the Medium Term Financial Strategy presented to Members in December 2011 and is framed in accordance with the agreed Strategy.

2. Recommendations

That Members:

2.1 Formally approve the proposed budget for 2012/2013 as presented in Appendix 1.

2.2 Note the Local Government Settlement, Council Taxbase and Collection Fund positions as outlined in the report.

- 2.3 Determine the budget requirements and the precept to be notified to the Billing Authorities, outlined in Appendix 2, and to consider options 1 to 3 in Section 7 of the report.
- 2.4 Note the medium term financial position for 2012/13 to 2015/16 and, in particular, the significant financial pressures in years 2014/2015 and 2015/2016.
- 2.5 Note the Director of Finance's comments about the robustness of estimates, adequacy of reserves and potential liabilities that may arise in future years.

3. Information and Analysis

- 3.1 Appendix 1 presents the budget proposals 2012/2013 to 2015/2016. The anticipated (surplus) / deficit before Effectiveness Programme savings is summarised below:

| | |
|-----------|--------------|
| 2012/2013 | (£2,321,900) |
| 2013/2014 | (£110,700) |
| 2014/2015 | £1,918,400 |
| 2015/2016 | £3,276,800 |

- 3.2 The figures allow for a Tax Freeze Grant of £0.5m in 2012/2013 through to 2014/2015 and a one-off grant of £0.7m in 2012/2013. The figures shown do not assume any further additional Freeze Grant funding in future years and do not include the potential for any precept increases. Of the £3.3m projected deficit in 2015/2016, £1.2m is directly attributable to the anticipated discontinuation of the Council Tax Freeze Grant. It should be noted that the 2012/2013 budget proposal allows for a Revenue Contribution to Capital of £1.2 million. Without this one-off item, the budget surplus would rise to £3.5m in 2012/2013.
- 3.3 The budget surpluses (2012/2013 and 2013/2014) are largely as a result of the Effectiveness Programme savings, in particular the restructure, robust financial management and the Authority's proactive approach in preparing for the funding challenges ahead.

4. Local Government Finance Settlement 2012/2013

Formula Grant (Revenue Support Grant and Redistributed Business Rates) 2012/2013

- 4.1 Unlike Specific Grants, Formula Grant comes with no strings attached and authorities can spend it as they see fit. Formula Grant is mainly made up of the business rates, or National Non Domestic Rates (NNDR), that Councils collect from their local businesses as their contribution to the cost of local public services. This is paid into a central pool and redistributed by Central Government in the Finance Settlement. Members should note the proposed changes in the distribution of NNDR in future years referred to in the Medium Term Financial Strategy. Further, Formula Grant also includes funding from Central Government, known as Revenue Support Grant (RSG).
- 4.2 The Government announced details of the provisional 2012/2013 settlement in December 2011, which marked the start of a 5 week consultation period. The final settlement was announced in January 2012. An announcement on the position for 2013/2014 and 2014/2015 is unlikely to be made until December 2012.
- 4.3 The Formula Grant allocation for 2012/2013 is £17.911m, a reduction of 0.6% compared to the 2011/2012 allocation of £18.025m. This is in line with the settlement data previously issued by the Department for Communities and Local Government (DCLG) for 2012/2013.

The Localism Act, Council Tax Referendums, and Council Tax Freeze Grant 2012/13

- 4.4 On 8 December 2011, the Government confirmed that legislation through the Localism Act will provide communities with the power to veto excessive council tax increases and that, in 2012/2013, council tax increases for fire authorities would trigger a referendum if they exceed 4% (3.5% for district, borough, unitary authorities and county councils).
- 4.5 Concerns have been expressed over the costs of conducting such a referendum with estimates suggesting that costs of a referendum could be around 2.5% of Council Tax.
- 4.6 In 2011/2012 the Authority accepted Council Tax Freeze Grant of £0.5m, ongoing for four years. The Authority has a further option to accept a Freeze Grant of £0.7m (one-off funding) in 2012/2013. This grant funding will not be built into the Council Tax Base and will not be available to spend in all future budgets. The Authority may have to make the decision in future years of either increasing council tax to make up the shortfall or identify savings of around £1.2m in that year.

Specific Grants 2012/2013

- 4.7 The Government recently announced indicative Specific Grants due to the Service totalling £207,900 in 2012/2013 (£218,000 2011/2012).

New Dimension

- 4.8 A grant of £84,433 has been announced for 2012/2013 (£81,000 2011/2012). This covers the national resilience vehicles provided by CLG.

Firelink

- 4.9 The Firelink Grant was introduced in late 2010/2011 and will be paid through a Section 31 Local Government Act 2003 grant for the remaining period of the current Comprehensive Spending Review (CSR). The grant is £123,467 in 2012/2013 (£137,000 2011/12). Costs to the Authority are expected to rise to around £240,000 in 2012/2013 representing a shortfall of some £116,000.

Capital Grant 2012/2013

- 4.10 The Authority was allocated £1.419m Fire Capital Grant in 2011/12 however a lower figure of £0.5m has been assumed for 2012/13 pending the announcement from the Department for Communities and Local Government. This reflects the uncertainty created by the anticipated £1.8m grant from CLG for the TriControl project.
- 4.11 2012/13 is the final year of Capital Grant Allocations. A bidding process for Capital Grant funding is to be introduced for 2013/14 onwards. Full details are still to be published. The proposed Capital Programme 2012/2013 to 2013/2014 is included in a separate report.

5. Revenue Budget 2012/2013

5.1 The proposed 2012/2013 Revenue Budget is summarised below.

Table 1 – 2012/2013 Base Budget Requirement

| | £m |
|--|--------------|
| Base budget 2011/2012 | 40.84 |
| | |
| Increases: | |
| Pay and Other Inflation | 0.13 |
| Ongoing Pressures on the Base Budget | 1.35 |
| Revenue Contribution to Capital | 1.20 |
| | |
| Reductions: | |
| Ongoing Budget Reductions | (4.34) |
| | |
| Base Budget Requirement 2012/2013 | 39.18 |

5.2 Internal procedures and accounting and financing options continue to be reviewed to ensure that all potential efficiencies are identified and acted upon. Examples of this include reprofiling borrowing requirements and reviewing leasing/purchase options for vehicles.

5.3 **Pay and Other Inflation** – the 2012/2013 proposed budget does not allow for pay inflation, however provision has been made by way of an Earmarked Reserve for an operational staff pay award of 1% with effect from 1st July 2012. Other inflation of 2.5% (fuel 15%) has been applied. It should be noted that inflation has not been applied as a matter of course, and has been subject to scrutiny and included only where considered necessary. Electricity and Gas increases are in accordance with the level of inflation experienced in 2011/2012, being 15% and 24% respectively.

5.4 **Staffing** – the proposed staffing budget provides for the regrading of Group Managers, Watch Managers and Station Managers (A to B regrading), totalling approximately £0.4m, and a further £0.05m to meet the cost of additional Retained Fire Fighter drill time (relating to fitness levels).

5.5 Costs of the Part Time (Prevention of Less Favourable Treatment) Regulations in 2012/2013 are difficult to quantify. Provision has not been made for this additional cost in the 2012/2013 staffing budget, although an Earmarked Reserve (£0.12m) has been set up to meet any future (2012/2013) associated cost.

- 5.6 An on-going budget reduction of £3.3m reflects the new staffing structure delivered through vacancy management and the Effectiveness Programme. It should be noted that the latest monitoring report (December 2011) forecasts an overall staffing budget saving of £3m in 2011/2012 compared to the Original Budget.
- 5.7 The proposed budget also includes provision for an additional £0.173m contribution to the Local Government Pension Scheme. This will be required over the next 18 years to reflect the latest triennial revaluation.
- 5.8 Other ongoing budget pressure increases and reductions reflect the realignment of the overall revenue budget on the basis of need. Budget managers have been actively involved and consulted with in the process of arriving at a budget estimate.

6. Capital Programme 2012/2013- 2013/2014

- 6.1 A report on the Capital Programme is also included on the agenda which presents the proposed Capital Programme for 2012/13 to 2013/14. Provision has been made in the revenue base budget for the capital financing charges arising from the current capital programme totalling £2.3m. This figure includes the costs of finance leases which are of a similar level to borrowing costs.
- 6.2 Capital financing charges now represent 5.6% of the Authority's revenue budget which is considered to be within prudent limits. A further report on the Prudential Code for Capital Finance is also included on the agenda for this meeting. In light of the projected underspend, the capital programme has been funded from revenue in preference to borrowing. This has had the effect of reducing long term borrowing costs compared to those anticipated previously. For every £1m reduction in borrowing there is a saving of approximately £40,000 per annum to the revenue budget.

7. Council Tax and Precepting Options

Council Tax surpluses

- 7.1 The Authority is entitled to a proportionate share of any surplus Council Tax income from the City and District Council Tax Collection Funds. For 2012/2013 this is estimated to be a surplus of £0.040m. This is a small reduction on the 2011/2012 figure of £0.049m with 6 districts estimating a surplus and 2 projecting deficits. Full details are shown in Appendix 2.

Council Taxbase/Band D Equivalent Properties

- 7.2 The Council Taxbase, the number of taxable properties in Derbyshire, has increased by 0.5% from 2011/2012, equivalent to £0.115m. The Government projected an increase in the taxbase of 0.6%.

Implications

- 7.3 The impact of the Financial Settlement, Specific Grant funding and changes to the Council Taxbase is to reduce the base budget for 2012/2013 by £0.010m (0.02%). The estimated Council Tax Freeze Grant for 2012/2013 is £0.67m (£0.5m 2011/2012). Assuming that the grant is accepted, this leaves a net funding increase of £0.66m in 2012/2013. Given the level of funding reduction anticipated in future years, it is worth giving consideration to the following precepting options:

Option 1 – To freeze Council Tax for a Band D property in 2012/2013 at the same level as 2011/2012

- 7.4 This would mean no increase in the Band D Council Tax and the Authority would receive the Grant of £0.67m in 2012/2013. As mentioned earlier in the report, this could result in the need for the Authority to make savings in future years due to the short term nature of this funding, amounting to £1.2m in total.

Option 2 – To increase Council Tax for a Band D property in 2012/2013 by 3% above 2011/2012 levels

- 7.5 This would increase Council Tax from its current level of £67.17 to £69.18, representing an increase of £2.01. The advantage of this option is to build the impact of the precept increase into the Council Tax base and ensure it is available to spend in future budgets.

Option 3 – To increase Council Tax by more than 3.5% for a Band D property in 2012/2013

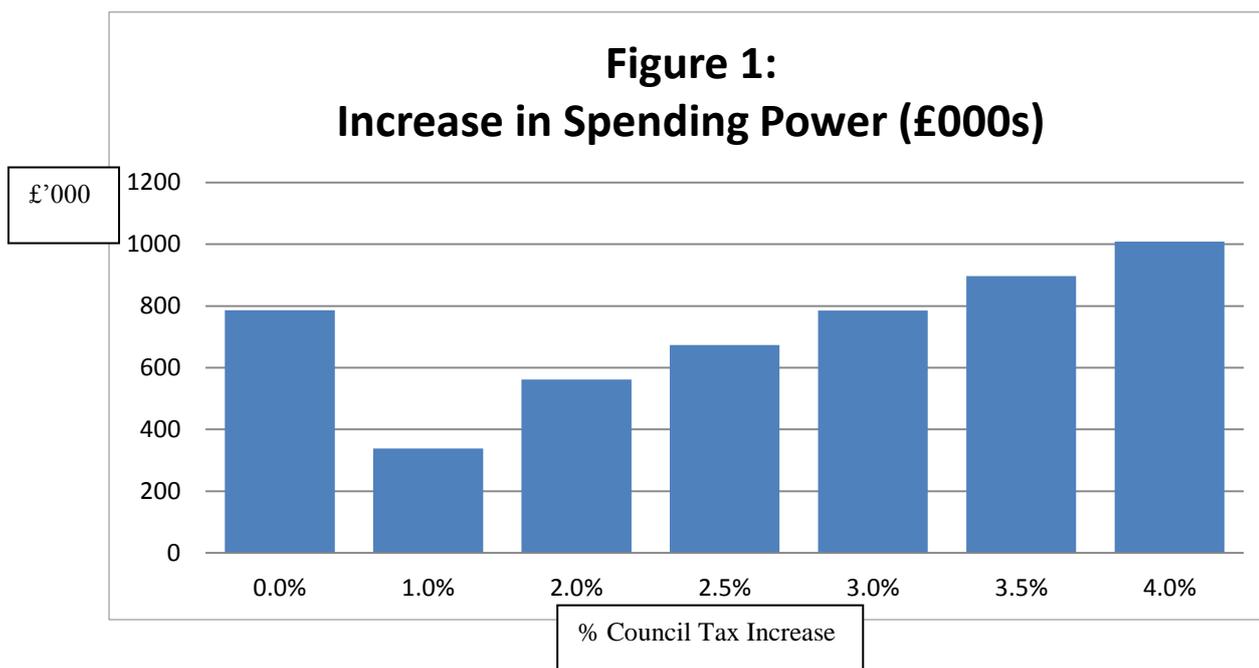
- 7.6 In previous years the Government had confirmed a 3.5% council tax increase as a potential level for capping decisions. In January 2012 a CLG Council Tax Referendum Note confirmed that Fire and Rescue Authorities setting a council tax increase in excess of 4% would be required to seek approval of their local electorate in a referendum.
- 7.7 The Authority's flexibility to meet budget short falls in the short term through the Effectiveness Programme and reserves, if necessary, should be taken into account when considering this option.

7.8 Table 2 below illustrates the net increase in income associated with different increases in precept and the impact of the Council Tax Grant on the Authority's net spending power.

Table 2 – Additional Precept Value

| Increase in Council Tax | Additional Precept Raised | Tax Base Growth | Council Tax Grant | Net increase in spending power |
|-------------------------|---------------------------|-----------------|-------------------|--------------------------------|
| % | £ | £ | £ | £ |
| 0 | - | 115,086 | 671,396 | 786,482 |
| 1 | 223,315 | 115,086 | - | 338,401 |
| 2 | 446,631 | 115,086 | - | 561,717 |
| 2.5 | 558,288 | 115,086 | - | 673,374 |
| 3 | 669,946 | 115,086 | - | 785,032 |
| 3.5 | 781,604 | 115,086 | - | 896,690 |
| 4 | 893,261 | 115,086 | - | 1,008,347 |

7.9 This is shown graphically below in Figure 1:



- 7.10 The table below shows the impact that each percentage increase in council tax will have on the range of council tax bands (A to H) and the subsequent increase in council tax payable in pence per week.

Table 3 – 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) |
|-------------------------|--|---|
| % | £ | £/p |
| 1 | 45.22 to 135.67 | 44p to £1.34 |
| 2 | 45.67 to 137.02 | 89p to £2.69 |
| 2.5 | 45.90 to 137.69 | £1.12 to £3.36 |
| 3 | 46.12 to 138.36 | £1.34 to £4.03 |
| 3.5 | 46.34 to 139.03 | £1.56 to £4.70 |
| 4 | 46.57 to 139.70 | £1.79 to £5.37 |

8. Feedback on Budget Consultation 2012/2013

- 8.1 The Service has undertaken extensive consultation in order to gather public opinion on whether the priorities set (2011 to 2015) are appropriate and in line with the demands and expectations of local communities. Consultation on the spending priorities took place between September 2011 and January 2012. A separate report on the consultation process will be presented to Members.
- 8.2 The results of the consultation confirmed the following 5 areas to be of high priority for the Service:
- Our system for responding to fires;
 - Ongoing development of the Capital Programme;
 - Reducing the number of Unwanted Fire Signals (false alarms);
 - Retained Duty System review;
 - Income generation.
- 8.3 The Authority has considered the consultation response in the budget estimates. Ongoing focus on the delivery of the Effectiveness Programme, and the Service's commitment to consultation, will ensure that the public are kept fully informed, particularly on progress made against savings targets and the Authority's approach in preparing for the challenges ahead.

9. Financial Settlements 2012/13 and Future Years

- 9.1 The position for 2013/2014 and beyond remains unclear, with significant uncertainty in the years 2013/2014, 2014/2015 and 2015/2016. The review of the funding formula for 2013/14, including the proposals for the retention of local business rates and inclusion of specific grants within the fire formula, could have a significant impact on individual Authority's settlements. This was considered in the Medium Term Financial Strategy presented in December 2011.
- 9.2 In line with the government's CSR announcements and the proposed 'backloading' of funding reductions, Appendix 1 reflects an overall 25% reduction (£5m) by 2014/2015. The projections do not allow for any further funding cuts for the year 2015/2016. The potential for future cuts in 2015/2016 should be noted, although at the current time they are difficult to quantify.
- 9.3 The broad message from the Chancellor of the Exchequer in the Autumn Statement was to expect a similar level of cuts in 2015/2016 and 2016/2017 as experienced in the Comprehensive Spending Review (CSR) 2010. Given that the Authority anticipates cuts in the region of £5m 2011/2012 through 2014/2015 in accordance with the CSR 2010, further funding reductions could amount to between £1.2m and £2.5m cumulatively for years 2015/2016 and 2016/2017.
- 9.4 Other factors that are likely to have a significant impact or pressures on the Fire Authority in the medium term are:

Pay – The Government have made it quite clear that pay restraint is vital to supporting front line service delivery and ensuring medium term financial stability. The Government imposed a 0% cap on pay awards across the public sector for 2011/12 and 2012/13, following on from a pay freeze in 2010/11.

Pensions – The increased cost of pensions arising from an ageing population, higher pension ages and the reform of ill health benefits are having a significant impact on the ongoing cost of pensions payments. Government plans to review the contribution by employers and the liability on the taxpayer, along with an expectation of increased contributions from higher earners, are likely to have a significant impact on the service in the future.

Firelink - From 2013/14, it is intended by CLG that Fire Revenue Grant will be incorporated within Formula Grant, subject to further discussion with the sector. This will introduce further pressures on the budget and it remains to be seen how the grant will be incorporated into the funding formula.

Localisation of Business Rates – The Government has consulted on changes to the method by which grant funding is distributed. There remains much uncertainty about the way the system will work. Changes are likely to be implemented 1st April 2013. Further detail is awaited and will be communicated to Members at the earliest opportunity.

Localisation of Council Tax Benefit - Proposed changes in council tax benefits and discounts on precept income from billing authorities is likely to have an, as yet unquantifiable, effect on future funding. The Government has consulted on proposals to leave significant discretion to the Council Tax Billing Authority, whilst cutting central government support to the scheme by 10%.

Training– the Service has significant training commitments and continues to address the need for further training on core competencies and for retained duty personnel. This is likely to increase the demands on the training budget as proposals come forward on the required training programme.

10. Four Year Financial Forecast 2012/13 – 2015/16

10.1 Table 4 provides indicative budgets for the next four years. They assume no further increase in Council Taxbase (£0.115m) and exclude Collection Fund surpluses beyond 2012/2013. In accepting Council Tax Grant for 2011/2012 the Authority is committed to this additional funding in each of the four years 2011/2012 to 2014/2015. The proposed budget also models the impact of accepting the (one-off) Council Tax Freeze Grant in 2012/2013. The figures do not reflect any further funding cuts for the year 2015/2016, although the likelihood of future cuts should be noted.

Table 4: Projected Four Year Financial Plan – assumes 25% cut in Government Grant and no Council Tax Increases

| | 2012/2013 £ | 2013/2014 £ | 2014/2015 £ | 2015/2016 £ |
|--|--------------------|--------------------|--------------------|--------------------|
| Approved Base Budget Previous Year | 40,840,890 | 39,185,680 | 38,503,860 | 39,214,890 |
| Pay and Other Inflation | 132,950 | 506,240 | 711,030 | 803,410 |
| Ongoing Budget Pressures | 1,349,500 | 120,000 | | |
| One – Off Budget Adjustment – Revenue Financing of Capital | 1,200,000 | | | |
| Ongoing Budget Reductions | -4,337,660 | -108,060 | | |
| Remove One – Off Budget Reduction | | -1,200,000 | | |
| Proposed Net Budget | 39,185,680 | 38,503,860 | 39,214,890 | 40,018,300 |
| Revenue Support Grant / NNDR | -17,949,600 | -15,728,000 | -14,410,000 | -14,410,000 |
| Council Tax Precept | -22,331,530 | -22,331,530 | -22,331,530 | -22,331,530 |
| Council Tax Grant | -1,226,400 | -555,000 | -555,000 | |
| Total Funding | -41,507,530 | -38,614,530 | -37,296,530 | -36,741,530 |
| (Surplus)/Deficit before Effectiveness Programme | (2,321,850) | (110,670) | 1,918,360 | 3,276,770 |

10.2 General Pay Inflation has been included as follows:

| | |
|-----------|----|
| 2012/2013 | 0% |
| 2013/2014 | 2% |
| 2014/2015 | 2% |
| 2015/2016 | 2% |

10.3 As such, the budget allows for pay inflation of £0.32m in 2013/2014, £0.41m in 2014/2015, and £0.43m in 2015/2016. The cost of applying a 2% pay award over the 4 year programme is £1.155m. The effect of a 1%, 2% and 3% pay award in years 2013/2014 to 2015/2016 is compared below.

| | Year on Year Cost £000s | Cummulative Cost 2013/2014 – 2015/2016 £000s |
|--------------|--|---|
| 1% Pay Award | 160 | 570 |
| 2% Pay Award | 320 | 1,155 |
| 3% Pay Award | 480 | 1,750 |

10.4 The budget also includes provision for an increase in the employers' pension contribution in 2013/2014 and later years (Fire Fighter's Pension Scheme post 2006).

10.5 Provision for price increases are based on the following assumptions

| | |
|-----------|------|
| 2012/2013 | 2.5% |
| 2013/2014 | 2.5% |
| 2014/2015 | 2.5% |
| 2015/2016 | 2.5% |

**Exceptions apply to Electricity, Gas and Fuel with inflation being applied at a level of 5% 2013/2014 onwards.

10.6 The likely case of a 25% reduction in government grant leaves a deficit of £3.3m over the next four years. Table 4 above clearly illustrates the impact of the funding reductions on the Authority's budget. This highlights the importance of delivering the required savings through the Effectiveness Programme.

11. The Effectiveness Programme

11.1 The Effectiveness Programme is designed to be a sustainable way of delivering the ongoing savings necessary to address the reductions in funding. It's aim is to 'Improve the Service's effectiveness and address the funding challenges through:

- Changing the way the Service works;
- Reviewing how the Service responds to emergencies; and
- Making the best use of the Service's resources.'

11.2 A proactive approach to financial management, cost savings and the successful outcomes of the Effectiveness Programme to date means that the Service is in a good position to deliver it's plans. This is demonstrated through the Forecast Outturn 2011/2012 (anticipated year end position), and more specifically by the favourable Revenue Budget position 2012/2013 and 2013/2014 and the Authority's level of reserves. The ongoing effects of savings secured so far are key to reducing future revenue budget shortfalls.

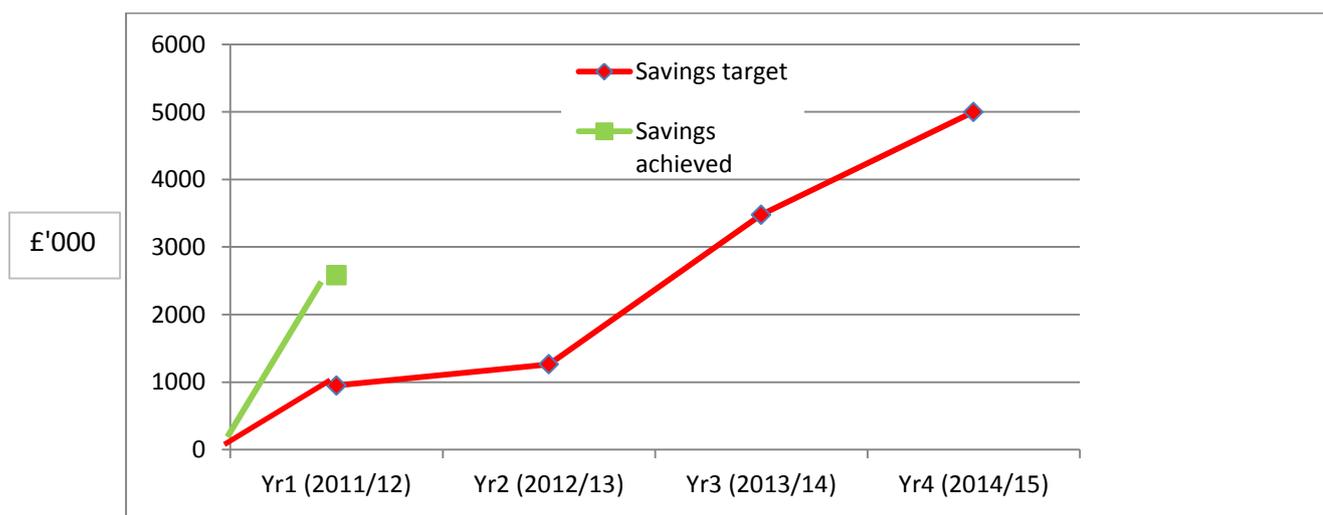
11.3 In order to meet future financial challenges, the Effectiveness Programme has identified potential savings of £6.2m. Target reductions 2011/2012 to 2014/2015 are £5m (assuming a 25% cut in government grant), although the likelihood of future cuts in 2015/2016 should be noted. The Effectiveness Programme consists of 15 projects. These are shown in Table 5 along with target savings and savings achieved to date.

Table 5: Target Savings from the Effectiveness Programme and Savings Acheived

| Project and ID | 2011/2012 – 2014/2015 OVERALL TARGET | ONGOING SAVINGS ACHEIVED | REMAINING SAVINGS (SURPLUS) - FUTURE YEARS |
|--------------------------------------|--------------------------------------|--------------------------|--|
| | £ | £ | £ |
| ID 185,219 - Crewing | 0 | - | 0 |
| ID 182 - Response | 114,000 | - | 114,000 |
| Budget challenge (2011/2012) | 200,000 | 502,500 | -302,500 |
| ID 186 - Prevention | 61,000 | - | 61,000 |
| ID191 - Fire cover | 98,000 | - | 98,000 |
| ID 190 - Restructure (non) | 754,530 | 557,270 | 197,260 |
| ID 190 - Restructure (uni) | 2,591,190 | 642,200 | 1,948,990 |
| ID 190 - Admin review | 198,000 | 113,000 | 85,000 |
| ID 207 - Agency | 200,000 | 320,000 | -120,000 |
| ID 184 - Water Rescue | 938,000 | 137,000 | 801,000 |
| ID 206 - Industrial Training | 12,000 | 12,000 | 0 |
| ID 178 - Accommodation | 80,000 | 80,000 | 0 |
| ID 179 - Training, Conference Costs. | 202,000 | 41,600 | 160,400 |
| ID 193 - Car scheme | 600,000 | 90,000 | 510,000 |
| ID 183, 211 – Leases | 167,000 | 86,100 | 80,900 |
| ID 189 - Equipment Replacement | 20,000 | - | 20,000 |
| | 6,235,720 | 2,581,670 | 3,654,050 |

11.4 The summary position is also shown graphically in Figure 2.

Figure 2: Profile of the Savings Target and Savings Achieved to date (2011/2012 - 2014/2015)



11.5 Detailed monitoring of savings achieved through the Effectiveness Programme will continue to be undertaken and reported to Members quarterly.

12. Robustness of Estimates and Reserves

- 12.1 The Local Government Act 2003 requires the Director of Finance/Treasurer to report on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves. The Authority must take these into account when setting a precept.
- 12.2 The process involved in producing the estimates has taken into account all known quantifiable financial impacts on the Authority's budget. Inflation has been added on the basis of best estimates and the budget has been vigorously scrutinised.
- 12.3 The challenging position in respect of government funding allows the Authority to only accommodate essential service developments dependent on the level of increase in the precept and the use of reserves. A comprehensive analysis of reserves has been undertaken as part of the 2012/2013 budget process in order to identify any reserves that could be set aside to support schemes which will deliver savings and to help fund any short term deficit. The projected 2012/2013 opening balance of this Invest to Save reserve is £1.2m, equivalent to the Council Tax Freeze Grant.
- 12.4 Expenditure in 2011/2012 has been subject to close monitoring and control in an attempt to free up funds to add to this reserve. The Forecast Outturn Report (December 2011) reported a planned 'underspend' of £4.2m. This has been applied to fund the capital programme from revenue in preference to borrowing. This has had the effect of reducing long term borrowing costs compared to those anticipated previously.
- 12.5 A favourable level of reserves will provide the Authority with a buffer against shortfalls in forthcoming years. However, as Members will be aware, it is a finite fund and cannot be relied on indefinitely.

Level of Reserves

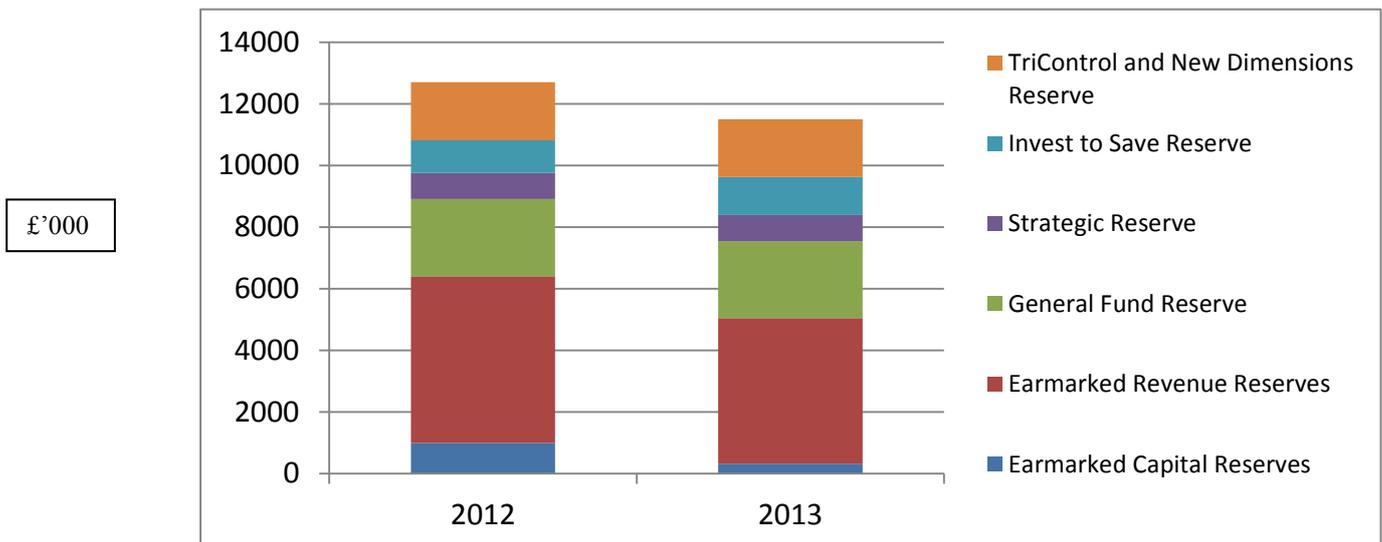
12.6 The projected 2012/2013 Opening Reserves are summarised below and compared to the Opening Reserves 2011/2012. Projected 2012/2013 reserves do not take account of any 2011/2012 underspend.

| Projected | 2011/2012 | 2012/2013 |
|--------------------------------------|------------------|------------------|
| | £'000 | £'000 |
| Revenue Earmarked Reserves | 5,412 | 4,721 |
| Capital Earmarked Reserves | 996 | 326 |
| TriControl and New Dimension Reserve | 1,880 | 1,880 |
| Strategic Reserve | 850 | 850 |
| General Fund Balance | 2,500 | 2,500 |
| Invest to Save Reserve | 1,060 | 1,223 |
| Total | 12,698 | 11,500 |

12.7 A more detailed summary of 2012/2013 Opening Reserves is provided in Appendix 3.

12.8 This is shown graphically in Figure 3:

Figure 3: Opening Reserves 2011/2012 and Projected Opening Position 2012/2013



12.9 General Reserves are maintained at 6% of net expenditure which is consistent with published best practice and in line with the financial strategy. A risk assessment of key reserves is included below.

Strategic Reserve

Purpose: To meet significant pressures, major incidents including environmental and large scale incidents and new government business continuity and security implications .

Activity: Volatile - such events are unpredictable but need to be provided for.

Impact: Significant – such a reserve can provide the Authority with capacity to maintain operations in the event of significant one off large scale incidents/pressures.

TriControl and New Dimension Reserve (previously called Modernisation Reserve)

Purpose: To provide for the uncertainty around the TriControl project and New Dimension requirements. To build capacity to support alternative mobilising systems if required and meet other national resilience proposals.

Activity: Volatile – uncertainty in government funding and diminishing opportunities to claim for New Burdens funding.

Impact: Significant – limited notice of changes in government policy and material sums of money are involved.

Invest to Save Reserve

Purpose: To provide funding to deliver structural change and pump prime projects which require investment to deliver savings in the longer term. Further, the reserve further provides for service and delivery improvements, funding for which is not inherent in the base budget.

To provide temporary funding from reserves to cover delays or shortfalls in delivering the Effectiveness Programme and provide an unallocated reserve to cushion the impact of funding cuts.

Activity: Uncertain – uncertainty in government funding in 2013/14, 2014/2015 and 2015/16.

Impact: Significant – limited notice of changes in government policy and material sums of money are involved.

Capital Financing Deferral

Purpose: To offset future borrowing costs or fund future capital programme schemes.

Activity: Uncertain – Uncertainty over capital grant in the future and costs of borrowing highlight the importance of this reserve in funding any future capital programme.

Impact: Significant – limited notice of changes in government policy and material sums of money are involved.

12.10 Thorough monitoring throughout each financial year considers opportunities to reprioritise expenditure and, in particular, to provide for Invest to Save opportunities which will serve to protect the Authority in a time of significant financial challenge. The 2012/2013 Opening Reserves are considered to be of an appropriate level.

13. Legal Considerations

13.1 The Authority has a statutory duty to notify its precepts to Billing Authorities by 1 March 2012 and has no power to issue a supplementary precept.

14. Financial Considerations

14.1 This report is asking Members to consider the strategic financial direction of the Authority. Members will need to take account of national, local and corporate issues addressed in the report.

15. Inclusion and Equality Considerations

15.1 In considering the budget Members are under a legal duty to pay “due regard” to the need to eliminate discrimination and promote equality with regard to race, disability and gender, including gender reassignment, as well as to promote good race relations. From April 2011 this equality duty was extended to cover age, sexual orientation, pregnancy, maternity and religious belief.

This report has been approved by the following officers:

S Frayne, Chief Fire Officer/Chief Executive, Simon Allsop, Director of Finance/Treasurer

Contact Officer *Simon Allsop*
Background Papers:

Contact No: 01332 7712221 x7212

Revenue and Capital Outturn Position 2010/11, 30 June 2011

2011/12 – 2012/13 Capital Programme, Prudential Code Report and Treasury Management Strategy, 10 March 2011

2011/2012 – 2012/2013 Capital Programme and Revenue Budget 2011/2012, 24 February 2011

Revenue and Capital Budget Monitoring Report April – July 2011/2012

Revenue and Capital Budget Monitoring Report April – September 2011/2012

Medium Term Financial Strategy and The Effectiveness Programme, 15 December 2011

Revised Budget 2011/2012, 15th December 2011

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