

DERBYSHIRE FIRE AUTHORITY

22 February 2007

Report of the Chief Fire Officer, Chief Executive and of the
Treasurer

REVENUE (AND CAPITAL BUDGET) 2007-2008

1. Purpose of the Report

This report presents the outcome of the budgetary process for the 2007-08 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 2008/09, 2009/10 and 2010/11 are also shown.

Also presented is the Authority's proposed capital programme for 2007/10. 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 Grant Settlement

2.1 The final settlement was announced on 18 January 2007 and as anticipated there was no change to the provisional figure. Representations regarding the damping effect and the consequent loss of over £3m of grant have had no impact in 2007-08; pressure will continue to be maintained in an attempt to improve the position for future years. External finance has therefore increased from £16.185m in 2006-07 to £16.920m in 2007-08, an increase of 4.5%.

2.2 Table 1 shows a comparison for Shire and Combined Authorities nationally giving percentage increases for 2006-07 to 2007-08.

Table 1 - National RSG Position

	% Increase in 2007-08
All County and Combined Fire Authorities	3.5
DFRS	4.5
Highest Increase (1 Authority)	4.5
Lowest Increase (10 Authorities)	2.7

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 Fund. For 2007-08 this is estimated to be £50,887, a slight reduction on 2006-07. Full details are shown in Appendix A.

3.2 Council Taxbase/Band D Equivalent Properties

Council taxbase has increased by 0.775% from 2006-07. 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 Values

Increase in Council Tax	Additional Precept raised
%	£
1	299,067
2	484,400
3	669,734
4	855,067
5	1,040,400

4. Base Budget 2007 - 08

4.1 The 2006-07 budget has been projected forward to account for the impact of inflation and pay awards, the full year effect of previous year changes, including efficiencies and the revenue effects 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 - 2007-08 Base Budget Requirement

	£m
Budget Requirement 2006-07	34.655
Prior year RSG adjustment	.115
Impact of approved capital programme	.275
Net effects of inflation	.794
Efficiency gains	-.213
Increase use of balances	-.150
Base Budget Requirement 2007-08	35.476

5. Capital Programme

- 5.1 The proposed Capital Programme is shown in Appendix C. Provision has been made in the revenue base budget above for the capital financing charges arising from the current capital programme including the full year effect of the 2006-07 programme, totalling £275,000.
- 5.2 Three additional capital schemes have been included as development proposals (see below) and their effect on the 2007-08 revenue budget is an additional requirement of £20,053. Projections for a further two years show increases in financing costs of £848,903 and £555,519 in 2008-09 and 2009-10 respectively, based on borrowing of £8.7m in 2007/08 and £9.7m in 2008/09.

Table 4 – Proposed Capital Programme additions

Scheme	£'000
Business Continuity	150
Heanor Fire Station – Re-cladding	60
Swadlincote Fire Station – Alterations to building and tower	100

- 5.3 Capital financing charges represent 2.9% of the Authority's revenue budget which is considered well within prudent limits.

6. Service Developments

- 6.1 The Finance Liaison Group considered and ranked a number of service development bids into high, medium and low priority. These included the staffing proposals within the Service Development Plan approved by the Authority on 14 December 2006. A description of the development bids can be found in Appendix D.

Table 5 – Summary of Service Development Proposals

	One –off	Ongoing	Total
Priority	£	£	£
High	184,143	717,909	902,052
Medium	74,500	427,000	501,500
Low	13,500	0	13,500
Total	272,143	1,144,909	1,417,052

7. Budget Proposals

- 7.1 The increase in RSG alone is insufficient to fund the increase in base budget arising from inflation and commitments. To fund this shortfall and a significant proportion of the development proposals, will require an increase in precept of £1.041m which represents a 5% increase in Council Tax.

7.2 The Finance Liaison Group has agreed that the Strategic Leadership Team will determine the final allocation of funding to various development bids. The outcomes will be reported back to FLG in due course.

8. Medium Term Plan

8.1 The table below provides indicative budgets for the three years 2008/09 to 2010/11. The figures will of course be updated as further information becomes available but are currently based on annual increases in RSG and Council Tax in line with those in 2007/08.

Table 6 – Medium Term Financial Forecast

Revenue Budget Projection 2007/8 to 2010/11					
	£000's				
	2006/7	2007/8	2008/9	2009/10	2010/11
Base Budget	35,930	35,488	38,074	39,878	41,410
Adjustments to base (Pay awards, price increases etc)	-1,415	1,356	955	976	1,021
Capital Financing (1)	224	295	849	556	61
Adjusted Base Budget	34,739	37,139	39,878	41,410	42,492
Development Programme	749	935	0	0	0
Total Funding Requirement	35,488	38,074	39,878	41,410	42,492
Less					
RSG Prior Year	-115			0	0
Use of Balances (2)	-456	-606	-894	-330	0
Efficiency Savings	-262	-1,037	-1,263	-1,294	-1,327
External Funding Required	34,655	36,431	37,721	39,785	41,165
Revenue Support Grant	16,185	16,920	17,597	18,301	19,033
Surplus on Collection Fund	79	51	30	30	30
Council Tax	18,391	19,460	20,433	21,455	22,527
External Funding Available	34,655	36,431	38,060	39,785	41,590
Limit of Further Developments	0	0	339	0	425

The capital programme and other service development items may need to be adjusted to reflect the level of available funding when known. This will largely be dependent upon the Comprehensive Spending Review 07 and future Council tax precepts.

- (1) Assumes no additional borrowing in 2010/11.
- (2) Assumes use of reserves to fund shortfall in 2009/10.

9. **Robustness of Estimates & Reserves**

- 9.1 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.
- 9.2 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 the base is deemed inappropriate.
- 9.3 The Authority's ambition to become an excellent service is partly dependent on additional investment. Though hindered by the impact of damping, some growth could be accommodated, the amount being directly linked to levels of increase in the Authority's precept and the use of reserves.
- 9.4 The level of earmarked and general reserves is shown in the table below. There is no statutory requirement regarding the level of reserves that must be maintained. For general reserves the external auditor takes the view that 5% of net budget is a suitable level; the Authority is currently maintaining just over that level. Monitoring of current year budgets suggests there is unlikely to be an overspend which might reduce this. For earmarked reserves it is a matter of judgement based on individual circumstances. Given the ambitious Capital Programme and Service Development Plan it would be prudent to maintain a reasonable level of balances.
- 9.5 Members will be aware that the Fire Authority previously approved the planned expenditure of £1.5m from the Modernisation Reserve to fund RCC/Firelink and New Dimensions.

Table 7 - Reserves 2007/08

Earmarked and General Reserves			
For the Financial Year 2007/08			
<u>Revenue Reserves</u>	<u>Balance</u> <u>31 Mar 07</u>	<u>Projected</u> <u>Movement</u>	<u>Balance</u> <u>31 Mar 08</u>
Earmarked Reserves	£	£	£
Home Fire Risk Assessment Grant	0	91,381	91,381
Capital Programme Support	306,743	0	306,743
Total Earmarked Reserves	306,743	91,381	398,124
General Reserves	2,065,900	0	2,065,900
Strategic Reserve	1,000,000	0	1,000,000
Modernisation Reserve	2,147,644	(697,886)	1,449,758
Sub Total	5,520,287	(606,505)	4,913,782
Provisions			
Insurance Fund – Personal Accident	38,432	2,400	40,832
Sub Total	38,432	2,400	40,832
TOTAL	5,558,719	(604,105)	4,954,614

Council Tax Capping

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

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

Conclusions

Including development items, there would be a budget requirement of £36.431m representing an increase of £1.776m or 5.1% which could be financed as follows;

Government Support	£16.920m
Council Tax	£19.511m

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 5% (see appendix A for detail). It is unlikely this would be regarded as excessive by the Minister nor is it likely to be out of line with increases proposed by other authorities in the East Midlands.

Other Legal Considerations

The Authority has a statutory duty to notify its precepts to Billing Authorities before 1st March 2007 and has no power to issue a supplementary precept.

Officers' 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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