

DERBYSHIRE FIRE AUTHORITY**25 February 2010****Report of the Chief Fire Officer/Chief Executive and Treasurer****REVENUE AND CAPITAL BUDGET 2010-11****1 Purpose of the Report**

- 1.1 This report presents the outcome of the budgetary process for the 2010-11 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 2011-12 and 2012-13 are also shown.
- 1.2 Also presented is the Authority's proposed capital programme for 2010-13. 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 Local Government Finance Settlement 2010/11***Final Revenue Support Grant***

- 2.1 The final settlement was announced on 20 January 2010 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 22 January 2010. This represents a 3.74% increase in grant for 2010/11.
- 2.2 Derbyshire Fire Authority still suffers from significant damping of £888,885. This is the difference between what the Authority should get based on the needs based formula and what it actually receives.
- 2.3 Table 1 shows a comparison for Combined Fire Authorities nationally giving percentage increases for 2010/11.

Table 1 – National RSG Position

| | % increase in 2010/11 |
|--------------------------|-----------------------|
| Average Fire Authorities | 2.17 |
| DFA | 3.74 |
| Highest increase | 4.13 |
| Lowest increase | 0.5 |

Derbyshire Fire Authority is still in the bottom quartile on cost per head of population nationally based on the latest published figures (£37.10 for 2007/08 compared to an average of £40.60). The recent Comprehensive Area Assessment (CAA) confirmed that *'the FRA plans its spending properly, stays within budget and its costs are low'*.

Capital Grant

- 2.4 The Fire Capital Grant allocation for 2010/11 has been confirmed as £918,507, as previously reported. Budget proposals reflect the allocation but it is assumed that the grant will not continue beyond 2010/11.

Government capping

- 2.5 The Parliamentary Under Secretary Of State, Communities and Local Government, Barbara Follett, stated in her speech on 26 November 2009, that the average Band D council tax was 3.0% in 2009/10. The Government expects to see council tax increases below 3% in 2010/11, whilst expecting Authorities to protect and improve front line services. The Government is prepared to take capping measures if increases are deemed to be excessive.

Pre Budget Report 2009

- 2.6 The Report confirmed that the Government would maintain planned levels of overall spending in 2010/11. This has been confirmed through our final settlement. However, there is a clear expectation that growth in public sector spending will be limited. Public sector expenditure is forecast to grow by 0.8% in real terms between 2011/12 to 2014/15. What is not clear at this stage is where funding will be reduced although the government's commitment to protecting front line services in the NHS, Police and Schools gives some indication. No mention is made of the Fire & Rescue Service but it is safe to assume that resources will be limited in the future with some commentators predicting 5% cuts in some areas year on year (a cumulative 18% over 3 years).
- 2.7 The **efficiencies and reforms** that are particularly likely to impact on the Authority 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 has imposed a 1% cap on pay awards across the public sector for 2011/12 and 2012/13.

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 limit the contribution by employers and the liability on the taxpayer, along with an expectation of increased contributions from higher earners, are expected to save £1bn a year from 2012/13 and twice as much going forward.

Efficiency savings - The last comprehensive spending review set an expectation that English Fire and Rescue Authorities would deliver £110m of cashable savings between 2008 and 2011, using 2007/08 revenue budgets as a baseline. This represents a saving of around 1.6% per annum over the period. Progress in delivering these savings is now included within the Council Tax Bills. The Government has set a further value for money target across the public sector of £35bn by 2010/11 and although there are no specific targets for the Fire and Rescue Service, the pre budget report suggested that Departments were making good progress with £8.5bn achieved to date.

Smarter Government – The Pre-Budget report also links to a Government report 'Putting the Frontline First: Smarter Government' which outlines the need to drive up standards through increased citizen involvement, freeing up public services from bureaucracy and streamlining the centre of government. This is further enhanced by the Governments Total Place initiative which encourages cost effective collaboration. The specific impact on fire and rescue authorities is likely to be in the areas of improving energy efficiency, better procurement, reducing the burden of inspection and perhaps most importantly, making better use of its assets and those of its partners.

These have been highlighted through previous meeting of the Finance Liaison Group (FLA) and the Finance and General Purposes Committee (F&GP).

- 2.8 There are some significant, at present, unquantifiable **pressures** facing the Authority in the short and medium term.

Retained Firefighters rights - The first relates to the financial and organisational impact of the Retained Firefighters and Part-time Workers Case. The final Tribunal in this matter determined that the Retained workforce had been treated less favourably in breach of the Part-time Workers (Prevention of Less Favourable Treatment) Regulations 2000. This has currently only focused on the exclusion of retained duty system firefighters from the Firefighters Pension Scheme (FPS) and their sick pay arrangements. National Joint Council (NJC) negotiations are still on-going. The Authority expected to hear news of the outcome in July 2009 but to date no guidance has yet been issued. This is difficult to quantify but the draft budget for 2010/11 contains further contributions to reserves to provide some capacity to respond to any future liability that may fall on the Authority.

Regional Control Centre - Previous meetings of F&GP, FLG and the Full Authority have highlighted the need to prepare contingency plans for emergency response mobilising, given the current climate of uncertainty surrounding the national FiReControl project. Whilst there is some capacity in the RCC Reserve held by the Authority, this is limited and there is increased uncertainty since the Authority set the budget last year as to whether the project will continue. This is a critical requirement to ensure that the Authority is able to continue to meet its statutory duties. Plans are being developed in the event it does not go ahead but significant financial resources (estimated at £2-3million) will be required to support the development and, if necessary, the implementation of these plans. This includes extensive security implications which are difficult to quantify at the moment. Consequently, it is prudent to ensure that resources are available to fund this important element of the service.

3. **Budget Requirement**

- 3.1 The 2009/10 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.

- 3.2 Details of the changes are shown in Appendix A and summarised in Table 3 below. This represents a 3.64% increase in budget.

Table 1 – 2010/11 Base Budget Requirement

| | £m |
|--|---------------|
| Base budget 2009/10 | 40.323 |
| Remove one off funded items from 2009/10 | (0.023) |
| Pay and price increases | 0.468 |
| Increases to reflect service pressures | 0.294 |
| Full year effects of commitments | 0.087 |
| Identified pressures/developments | 0.640 |
| | |
| Base budget requirement 2010/11 | 41.789 |

Savings and efficiencies

- 3.3 A focussed and sustained exercise was undertaken to identify savings and efficiencies in base budgets. Budget holders were asked to identify what the impact of 5%, 10% and 15% reductions in budget would have. The Authority was careful to ensure there was no impact on front line service delivery. This prompted a constructive debate and identified opportunities for reprioritisation and reprofiling of existing budgets. This realised around £0.7m from existing budgets. This has been used to offset service pressures, release resources to address development bids and deliver a 'needs based' budget requirement. A separate report will be presented to Members shortly on a proposed approach to addressing the government's efficiency agenda, building on initial discussions at FLG.

Service Developments and significant budget pressures

- 3.4 Other quantifiable pressures, as outlined in the three year revenue forecast to F&GP, include:

- Diminishing Regional Efficiency & Improvement Partnership (REIP) funding

Latest guidance suggests the Authority would have to claim all REIP money before March 2011 and it is unlikely money will be available after that. This creates a real pressure as this funding (currently £240,000) is fundamental to delivering the YES! scheme. The Authority needs to plan now to ensure it has the resources to deliver the schemes in the future;

- The impact of new accounting standards

This impact of new accounting treatment for leases could have an impact on revenue costs and capital financing charges for the Authority. This is currently being quantified but the Authority needs to account for this in the medium term.

- Outstanding work relating to job sizing

The extent of this commitment will become clearer in time.

- 3.5 The main service pressures have been incorporated into the functions budgets where possible but many will impact in the medium term and the Authority needs to give ourselves the flexibility to cope with these now.
- 3.6 The Finance Liaison Group (FLG) has met on five occasions to consider service development bids and budget pressures. The initial list totalled just over £2.0m, with some £0.816m relating to ongoing activities and £1.198m as one-offs. FLG reviewed the list, subjected the bids to robust scrutiny assessing risk and alignment with service priorities. Clear criteria were set and it was agreed that, given future funding pressures and the investment made in previous years, particularly in respect of PPE, bids would only be considered if they were business critical (required to meet statutory duties) or 'invest to save' opportunities. FLG also considered whether any of those bids could be met from alternative funding sources such as uncommitted budgets, rescheduling/reprioritising of existing budgets, reserves or the identified savings from challenges to budget holders. A full list of bids considered is included in Appendix B.
- 3.7 The following sources were identified as opportunities to fund a number of the pressures and bids:

Table 2 – Funding of pressures/ bids

| | £ |
|--|---------|
| From existing budgets | 144,700 |
| Bids to be met from unallocated budgets and reserves | 251,500 |
| Total | 396,200 |

- 3.8 The remaining development items are as yet unfunded and the first five have been agreed as 'business critical' through the FLG discussions.

Table 3 – Budget Pressures/ Bids

| | £ | £ |
|---|----------|----------|
| | One offs | On going |
| 1. Fire Precaution Upgrade work to meet the Regulatory Reform (Fire Station) Order 2005 | 150,000 | |
| 2. Welfare/Gender Improvements and refurbishment to Sanitary Facilities on RDS Stations | 150,000 | |
| 3. Community engagement initiatives and work to ensure compliance with Equality and Diversity legislation and the Local Government and Public Health Act 2007 | | 65,000 |
| 4. Environmental impact assessment and action | 25,000 | |
| 5. Ongoing maintenance of the Fire House facility at Kingsway Learning and Development | | 20,000 |
| 6. Smoke detection equipment for vulnerable groups in Derbyshire | | 102,000 |
| Total | 325,000 | 187,000 |

4. **Capital Programme**

- 4.1 The proposed Capital Programme is shown in Appendix C. This incorporates known changes to the previously approved programme. These changes relate mostly to the reprofiling of expenditure between years. Provision has been made in the revenue base budget for the capital financing charges arising from the current capital programme totalling £1,936,762.
- 4.2 Capital financing charges now represent 4.63% of the Authority's revenue budget which is considered within prudent limits. The Authority will review the opportunity to reduce the debt when the year end position is confirmed as this can deliver approximately £80k of ongoing revenue savings for every million pounds of reduced debt. This will allow us increased flexibility in managing revenue pressures which will increase significantly from 2011/12 onwards.

5. **Funding Requirement**

Council Tax and Precept Position

5.1 **Collection Fund**

The Authority is entitled to a proportionate share of any surplus on the City and Districts Council Tax Collection Funds. For 2010/11 this is estimated to be a surplus of £90,149. This is an increase on the 2009/10 figure of £35,793 with 5 districts estimating surplus and 4 projecting deficits. Full details are shown in Appendix D.

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

The Council Taxbase has increased by 0.76% from 2009/10. 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. It is important to recognise the relative proportions of Council Tax and RSG for the Fire Authority and compare it to local authorities where grant may provide a higher proportion of income. This affects the relative impact on overall expenditure of a given increase in Council Tax compared with other authorities. For example, to achieve the same proportionate increase in expenditure as the County Council, the Authority would require a 3.5% precept increase.

6. **Implications**

- 6.1 The proposed increase in base budget of £1.467m would require, in addition to the increased RSG, a council tax increase of £701,104 (3.64%). This assumes a 2.5% increase in precept (against an average for fire authorities of 2.45%) and allows the Authority to meet all of the 'business critical' items outlined in Table 3. Table 4 below sets out below what different increases in precept will deliver.

Table 4 – Additional Precept Value

| Increase in Council Tax | Additional Precept Raised |
|-------------------------|---------------------------|
| % | £ |
| 1 | 378,818 |
| 1.5 | 486,247 |
| 2 | 593,675 |
| 2.5 | 701,104 |
| 3 | 808,532 |

6.2 FLG has considered the implication of potential precept increases from 2% to 3%. A 1.5% precept option is also included below.

A 1.5% precept increase

6.3 A 1.5% precept increase would mean a reduction of £217,000 against the proposed 2.5% precept, with both the Fire Precaution upgrade work and Welfare Improvements on stations needing alternative funding. These amount to £300,000. This would be a significant challenge after already realising significant savings through our challenge of the base budget.

A 2% precept increase

6.4 FLG carefully considered a 2% precept increase. A 2% increase would mean a reduction of £107,000 and one of the business critical proposals, either the Fire Precaution upgrade work or Welfare Improvements (£150,000), would not be funded and would require funding from other sources.

A 3% precept increase

6.5 A 3% increase in the precept would provide the Authority with a further £107,000. This would allow the Authority to deliver all the agreed 'business critical' items and also provide the opportunity to fund £102,000 of smoke detection equipment.

6.6 In real terms, anything less than a 2.5% increase in council tax will result in a reduction to service provision.

6.7 Identified in the table below is the impact the percentage increase in council tax will have on the unfunded pressures/ developments.

Table 5: Funding developments and pressures

| Increase in Council Tax | Service Developments /Pressures | Growth |
|-------------------------|---------------------------------|--------|
| % | £ | % |
| 1 | 160,536 | 0.4 |
| 1.5 | 267,768 | 0.66 |
| 2 | 375,000 | 0.93 |
| 2.5 | 482,232 | 1.2 |
| 3 | 589,464 | 1.46 |

8. Consultation

- 8.1 A full report on the consultation process precedes this report on the agenda of today's Fire Authority meeting. The specific issues pertinent to the budget are highlighted in this report:
- 8.2 Derbyshire Fire and Rescue Authority costs residents £1.26 a week based on a Band D property. The Authority last year spent over £29 million on firefighting and rescue operations and £5 million on community safety. It also invested £6m in improving fire stations, vehicles and equipment. 93% of consultees thought this represented value for money.
- 8.3 Twenty percent of respondents supported a precept of 3% with 56% supporting an increase of 3% or more. 85% indicated they were very satisfied, fairly satisfied or satisfied with the service the Authority provides. Of the 8 priorities identified for consultation, assets, specifically the need to 'provide appropriate facilities and equipment to meet the needs of Derbyshire's communities' was ranked as the second most important priority out of 8. 95% supported the modernisation of fire stations with new facilities to promote community safety education and 94% felt that the purchase of new fire engines and equipment is a good use of the budget.
- 8.4 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

- 9.1 The table below provides indicative budgets for the two years 2011/12 and 2012/13 based on a 2.5% increase in council tax. They assume no increase in Council Tax base, no increase in Government funding and minimal Collection Fund surpluses. This is consistent with the models discussed at FLG.

Table 6: Projected medium term financial plan at 2.5%

| | 2010/11 | 2011/12 | 2012/13 |
|--|-------------------|-------------------|-------------------|
| | £ | £ | £ |
| Expenditure | | | |
| Base budget | 40,322,789 | 41,789,672 | 42,362,798 |
| Remove one off items | -23,095 | -527,535 | 0 |
| Pay/Prices and full year effect of commitments | 468,282 | 670,000 | 765,000 |
| Volume Changes | 293,942 | 400,661 | 214,932 |
| Developments - already committed | 87,535 | 30,000 | 30,000 |
| Developments - new | 640,219 | 0 | 0 |
| Budget Requirement | 41,789,672 | 42,362,798 | 43,372,730 |
| Funding | | | |
| Revenue Support Grant | | | |
| NNDR | 19,674,148 | 19,674,000 | 19,674,000 |
| Transitional Funding | 0 | | |
| RSG Previous Year Adjustment | 0 | | |
| Collection Fund Surplus/Deficit | 90,149 | 10,000 | 10,000 |
| Precept | 22,025,375 | 22,576,010 | 23,140,410 |
| Total funding | 41,789,672 | 42,260,010 | 42,824,410 |
| Surplus / (Deficit) of funding | 0 | (102,788) | (548,320) |

9.2 The position for 1.5%, 2% and 3% is also shown below:

| | | | |
|---------------------------------------|---|-----------|-----------|
| 1.5% - Surplus / (Deficit) of funding | 0 | (325,223) | (776,325) |
| 2.0% - Surplus / (Deficit) of funding | 0 | (205,288) | (653,383) |
| 3.0% - Surplus / (Deficit) of funding | 0 | (99,863) | (542,397) |

9.3 The table clearly illustrates the real pressures that will occur in 2011/12 and 2012/13 with potentially significant funding deficits as current commitments flow through, unless significant efficiencies can be found from within existing expenditure or the Authority prepares for the impact now.

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. Continued pressures in the financial markets are not considered material to the budget assumptions contained in this report.

10.3 The Authority continued 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 limited service development dependent on the level of increase in the precept and the use of reserves.

10.4 A summary of the current level of reserves at 31 March 09 is included below along with projected balances at 31 March 10:

| | 2009 | 2010 |
|-------------------------------|---------------------|---------------------|
| | £000 | £000 |
| Earmarked Reserves | 4,777 | 1,205 |
| Strategic Reserve | 850 | 850 |
| Modernisation Reserve - RCC | 1,573 | 1,294 |
| Modernisation Reserve - Other | 525 | 525 |
| General Fund Balance | <u>2,016</u> | <u>2,482</u> |
| Total | <u>9,741</u> | <u>6,052</u> |

10.5 These following three relate to less specific issues.

| | 2009 |
|---------------------------|---------------------|
| | £000 |
| Capital Programme Support | 400 |
| Redundancy Cost Reserve | 115 |
| Carry Forward Reserve | <u>524</u> |
| Total | <u>1,039</u> |

- 10.6 The figures above assume a contribution from the Modernisation Reserve of £279,000, part of the £1.5m previously approved to fund RCC/Firelink. Funds held in reserves to cover any future expenditure relating to the RCC are based on a project completion date of June 2010. The delays in the project and uncertainty over its future place even more importance providing adequate reserves.
- 10.7 The reserve position has been reported in detail to the Finance and General Purposes Committee in November. There is no statutory requirement on the level of reserves that must be maintained. After considering all the pressures facing the Authority, the uncertainty associated with the RCC and Part time workers claim on the retained staff and benchmarks with other fire and rescue services, the Authority is proposing to hold a general reserve of 6% compared to the 5% in previous years. This reserve is in addition to the strategic reserve which is currently uncommitted. However, the Authority is expected to undertake a risk assessment of the key reserves, building on the analysis presented at F&GP in November. This 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.

Modernisation reserves (including RCC)

Purpose: To provide for the uncertainty around the RCC/Firelink and New Dimensions requirements. To build capacity to provide 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.

- 10.8 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 continuing Capital Programme and pressures, it is essential to maintain a reasonable level of balances.
- 10.9 Working balances are also maintained to cover timing of borrowing, turnouts/attendance, pensions account payments and payment of government grant.

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 7 – 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 | p |
| 1 | 44.12 to 132.35 | 44p to £1.31 | 0.84 to 2.42 |
| 1.5 | 44.34 to 133.01 | 66p to £1.97 | 1.26 to 3.78 |
| 2 | 44.55 to 133.66 | 87p to £2.62 | 1.67 to 5.03 |
| 2.5 | 44.77 to 134.32 | £1.09 to £3.28 | 2.09 to 6.3 |
| 3 | 44.99 to 134.97 | £1.31 to £3.93 | 2.52 to 7.55 |

12. Conclusions

- 12.1 To fund the base budget and the items considered as ‘business critical’ (£410,000) will require a budget of £41,789m an increase of £1.467m or 3.64%. With government support of £19.674m this would require a precept of £22.025m. 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 2.5%.
- 12.2 A 2.5% increase would result in a Band D council tax of £67.17 equivalent to 3.2p per week extra. Almost 2/3 of households in Derbyshire and Derby have properties in bands A or B and would pay less than 3p per week extra.
- 12.3 A 3% increase would result in a Band D council tax of £67.49 equivalent to less than 4p per week extra.
- 12.4 A 2% increase would result in a Band D council tax of £66.83 equivalent to less than 2.5p per week extra.
- 12.5 A 1.5% increase would result in a Band D council tax of £66.18 equivalent to less than 1.5p per week extra.
- 12.6 Council tax increases announced so far appear to be, on average, lower than last year and the likely cap will be 3%.

13. Legal Considerations

- 13.1 The Authority has a statutory duty to notify its precepts to Billing Authorities by 1 March 2010 and has no power to issue a supplementary precept.

14. Other Considerations

- 14.1 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.

15. OFFICER RECOMMENDATIONS

- 15.1 It is recommended that the Authority determine the budget requirement and the precepts to be notified to the Billing Authorities.
- 15.2 It is recommended that members formally note the budget developments approved within delegated powers and listed in Tables 2 and 3 in Appendix B.

BRIAN TREGUNNA
CHIEF FIRE OFFICER
AND CHIEF EXECUTIVE

RICHARD APPLEBY
TREASURER

25 February 2010