Report No: Open	FOR DECISION

DERBYSHIRE FIRE AND RESCUE AUTHORITY

21ST FEBRUARY 2013

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

REVENUE BUDGET 2013/2014 AND THE MEDIUM TERM FINANCIAL FORECAST FOR 2013/2014 TO 2016/2017

1. Purpose of Report

1.1 To present proposals for the 2013/2014 Revenue Budget and the Medium Term Financial Forecast for 2013/2014 to 2016/2017. 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 2013/2014;
- The Proposed Revenue Budget 2013/2014;
- The Capital Programme 2013/2014;
- Council Tax and Precepting Options;
- Feedback on Budget Consultation;
- Financial Settlements for 2013/2014 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 on 13 December 2012 and is framed in accordance with the agreed Strategy.

2. Recommendations

That Members:

2.1 Formally approve the proposed base budget requirement for 2013/2014 based on the information as presented in Section 7 of the report.

2.2 Note the Local Government Settlement, Council Taxbase and Collection Fund positions as outlined in Section 7 of the report.

2.3 Determine the budget requirements and the precept to be notified to the Billing Authorities, based on the options outlined in section 7 of the report and Appendices 2a and 2b.

2.4 Note the medium term financial position for 2013/2014 to 2016/2017 and, in particular, the significant financial pressures in years 2015/2016 and 2016/2017 (Sections 4 and 9 of this report).

2.5 Note the Director of Finance/ Treasurer's comments about the robustness of estimates, adequacy of reserves and potential liabilities that may arise in future years (Section 12 of this report).

3. Summary

3.1 Appendices 1 presents the budget forecasts for 2013/2014 to 2016/2017. The anticipated (surplus)/deficit, taking account of Effectiveness Programme savings is summarised below:

2013/2014 (£279,096)
2014/2015 £630,920
2015/2016 £2,831,147
2016/2017 £4,377,733

3.2 These figures are based on acceptance of Council Tax Freeze Grant of £0.2m in years 2013/2014 and 2014/2015. Latest modeling shows that precepting provides a further £0.65m to the Authority. This is considered in full in section 7. The potential impact of the decision on whether to accept the freeze grant or precept, has been communicated through the Budget Development Group meetings and Member briefings. These figures also allow for previously approved Council Tax Freeze Grant of £0.5m in 2013/2014 and 2014/2015 (originally 2011/2012 through 2014/2015) The Authority also accepted one-off Freeze Grant of £0.7m in 2012/2013.

3.3 Of the £4.378m projected deficit in 2015/2016, £1.4m is directly attributable to the discontinuation of the Council Tax Freeze Grant as there are no guarantees that this funding will be built into the base budget from 2015/16.

3.4 It should be noted that the proposed budget for 2013/2014 allows for a Revenue Contribution to Capital of £0.886 million.

3.5 The projected budget surplus in 2013/2014 is due largely to the Authority's successful approach to achieving savings ahead of the reductions in funding. The majority of the budget surplus reported is attributable to Effectiveness Programme savings, in particular the restructure. This reflects the robust financial management applied and the Authority's proactive approach in preparing for the funding challenges ahead (Section 11 refers).

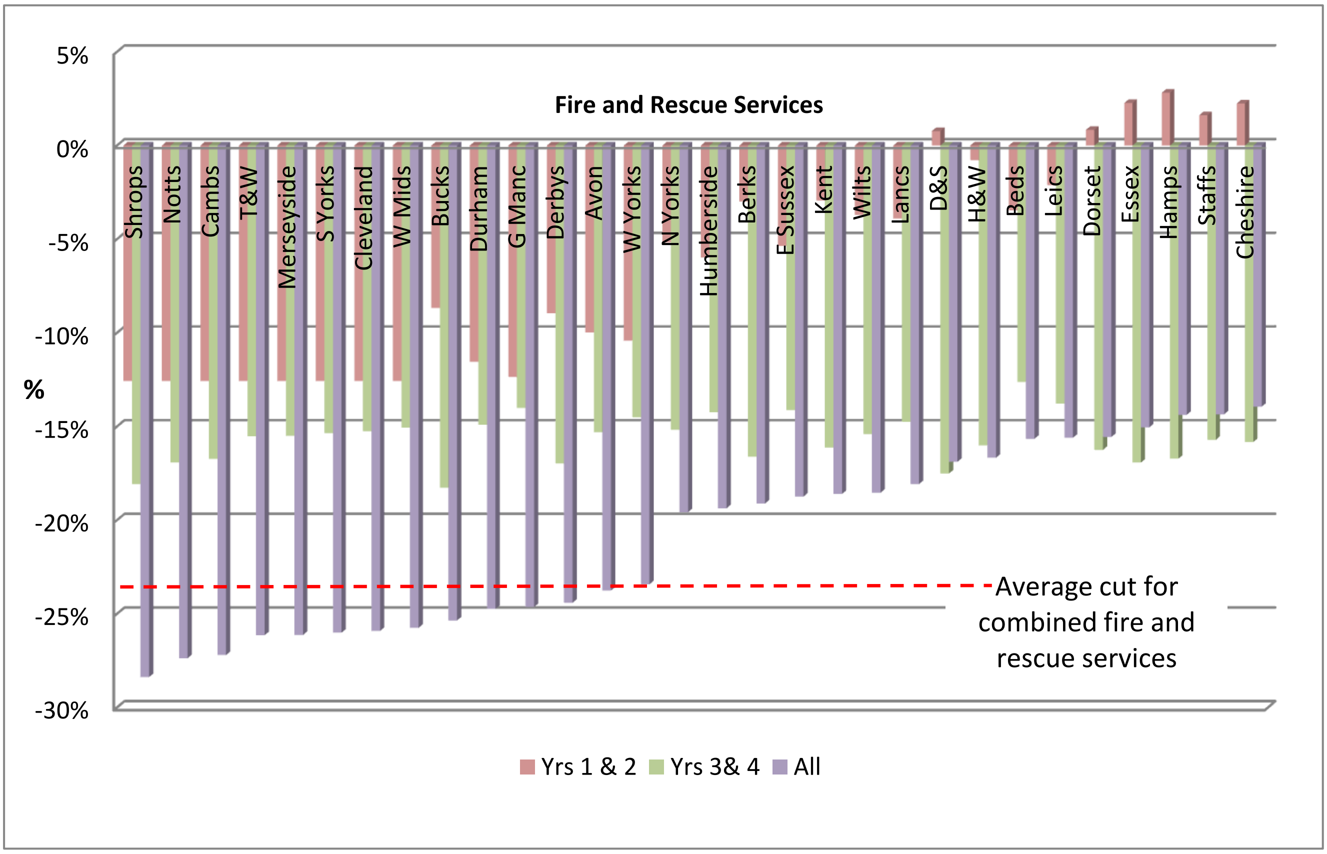
4. Local Government Finance Settlement 2013/2014

4.1 The Government announced details of the final 2013/2014 settlement on 19 December 2012, which marked the start of a 5 week consultation period. The final settlement was confirmed on 4 January 2013. A firm announcement on the position for 2014/2015 is unlikely to be made until December 2013 although announcement of the Governments spending round in the summer might give some further indications.

4.2 The Formula Grant allocation for 2013/2014 is £16.084m, a reduction of £1.8m (10.2%) compared to the 2012/2013 allocation of £17.911m. This is in line with the settlement data previously issued by the Department for Communities and Local Government (DCLG) for 2013/2014 and the Medium Term Financial Strategy The provisional indication for the 2014/2015 settlement is £14.872m (a further 8% cut).

4.3 The overall funding reduction for the period of the CSR 2010 is around £4.8m (24.4%). This is also in line with the Medium Term Financial Strategy and funding reduction assumptions previously reported to Members. The chart below shows the comparative position across the Combined and Metropolitan Services from 2011/12 to 2014/15.

Figure 1: Reductions in Government Grant 2011/12 – 2014/15



Formula Funding (Revenue Support Grant and Business Rates) 2013/2014

4.4 Unlike Specific Grants, the Formula Grant Allocation (£16.084m) 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. Changes announced through Local Government Finance Reform to NNDR confirm that fifty percent of business rates will be kept locally with 50% distributed through the formula grant process. Fire Authorities receive 2% of the local share. There is protection in the system for fire and rescue services through a 'top up' system which will ensure protection from volatility of business rate income. It is the Revenue Support Grant element of funding that the Government are applying the funding reductions to.

The Localism Act, Council Tax Refererendums, and Council Tax Freeze Grant 2013/14

4.5 In December 2011, the Government confirmed that legislation through the Localism Act will provide communities with the power to veto excessive council tax increases. It was announced prior to the settlement, that council tax increases for fire authorities above 2% would trigger a referendum. This is significantly reduced from the 4% in 2012/13 and there remains considerable uncertainty over the likely restrictions on Council Tax increases in the future. However, the Government have made it clear that they will review the Council Tax setting principles for 2014/15 based on the overall outcome Council Tax decisions locally. It is not known how this will affect the Authority in the future.

4.6 Concerns have been expressed over the costs of conducting such a referendum with estimates suggesting that costs of a referendum could far exceed additional council tax income generated.

4.7 In 2011/2012 the Authority accepted Council Tax Freeze Grant of £0.5m, ongoing for four years. The Authority also accepted Freeze Grant of £0.7m (one-off funding) in 2012/2013 and has a further option to accept a Freeze Grant of £0.2m in 2013/2014 and 2014/2015. It is unlikely that the grant funding will be built into the Council Tax Base for the future and therefore will not be available to spend in 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 further savings of around £1.4m in that year the grant ceases.

4.8 The Authority needs to be mindful of all these factors when considering the options in respect of the precept for 2013/14. The potential for further restrictions on Council tax increases in the future and the impact of accepting freeze grant outlined in 4.7 needs to be carefully considered. The options set out in section 7 outline the full financial impact of accepting freeze grant compared to a potential increase in the precept.

Specific Grants 2013/2014

4.9 The Government announced indicative Specific Grants due to the Service totalling £232,000 in 2013/2014 (£207,900 2012/2013).

New Dimension

4.10 A grant of £86,000 has been announced for 2013/2014 (£84,443 2012/2013). This covers the national resilience vehicles provided by CLG.

Firelink

4.11 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 £146,000 in 2013/2014 (£123,467 2012/2013). Costs to the Authority are expected to rise to around £260,000 in 2013/2014 representing a shortfall of some £114,000.

Capital Grant 2013/2014

4.12 The Authority was allocated £1.049m Fire Capital Grant in 2013/14 and 2014/15. The Authority has not received any bid based funding which was provided, in the main, to authorities looking to rationalise their estate and close/merge fire stations through projects that were already in progress. The proposed Capital Programme 2012/2013 to 2013/2014 is included in a separate report but reflected in the proposed revenue budget.

5. Revenue Budget 2013/2014

5.1 The proposed 2013/2014 Revenue Budget is summarised below.

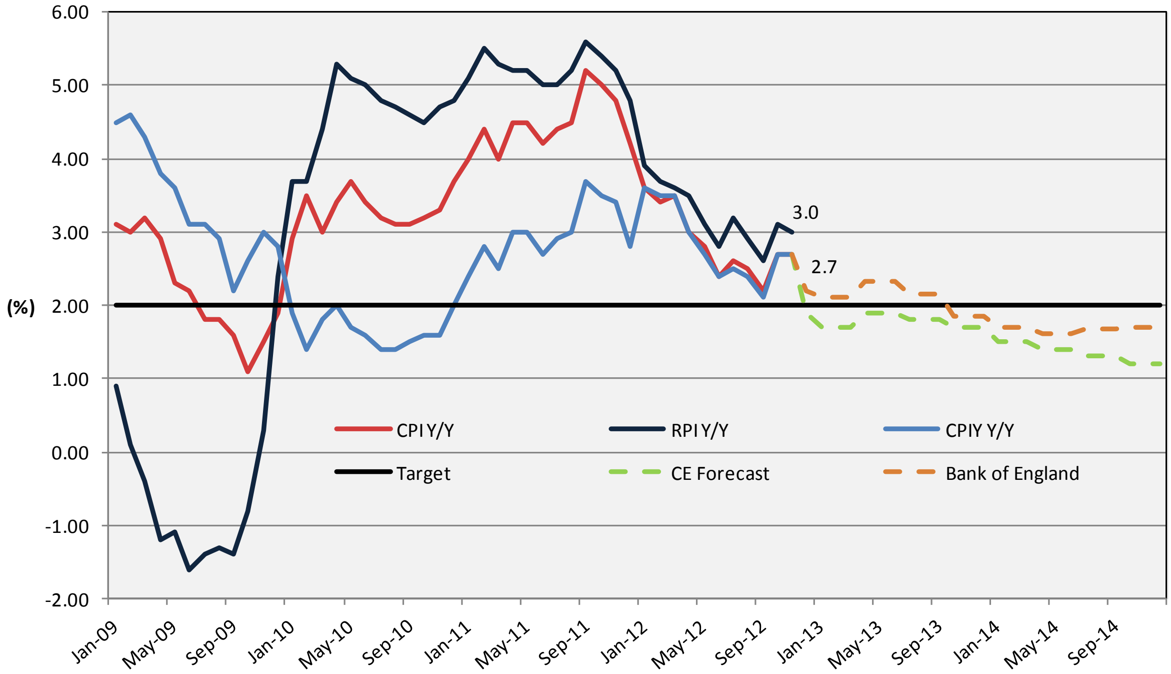
***Table 1* – 2013/2014 Base Budget Requirement**

	£m
Base budget 2012/2013	39.1
Increases:	
Pay and Other Inflation	0.8
Ongoing Pressures on the Base Budget	0.7
Revenue Contribution to Capital	0.9
Reductions:	
Ongoing Budget Reductions	-2.7
Base Budget Requirement 2013/2014	**38.8**

5.2 Internal procedures and accounting and financing options are under continual review to ensure that potential opportunities to be more cost effective 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 2013/2014 proposed budget allows for pay inflation of 2% for all categories of employee. Other inflation of 2.5% has been applied. Electricity and Gas increases reflect that although prices have not increased in the past year, recent announcements suggest planned increases in the region of 8 – 10% from early 2013. Overall historic and projected trends are shown graphically in Figure 2 below.

Figure 2: U.K Inflation trends and forecasts



5.4 **Staffing –** the proposed staffing budget provides for an increase in budget of 3% in relation to support staff pay for middle management and professional/technical positions. This amounts to around £0.08m per annum (2013/2014 through to 2015/2016). This is to bring these posts up to average market rates, having been sat below this threshold for some years. It is in recognition of an independent external pay review conducted across the Service. This built on the reviews undertaken of comparative senior officer pay and Members Allowances which also made provision for average pay. This increase will provide the Authority with greater workforce resilience in future years in key positions across the Service and will be kept under review in the same way as the Service benchmarks pay and remuneration for the wider service and Members.

5.5 Provision has been made for costs associated with the Part Time (Prevention of Less Favourable Treatment) Regulations in the 2013/2014 staffing budget, with the Retained Duty System staffing budget being increased by £0.1m to provide for the cost of a more favourable annual leave entitlement. Of note, Earmarked Reserves in relation to pensions and pensionable pay liabilities are £0.6m and for the RDS element of day staffing pay a provisional sum of £0.1m has also been established as part of the 2013/2014 budget setting process.

5.6 The 2013/2014 budget and Medium Term Financial Forecast also allows for an additional budget of £0.05m 2013/2014 and £0.1m ongoing from 2014/2015 to provide for future costs associated with Pension Scheme Auto Enrolment which requires the Authority to automatically enrol employees into a pension scheme, effective from October 2013.

5.7 An on-going budget reduction of £0.8m reflects 2013/2014 staffing budget savings associated with the Effectiveness Programme. These consist of on-going operational staffing reductions. It should be noted that the latest monitoring report (December 2012) forecasts a staffing budget saving of £0.7m in 2012/2013 as compared to the Original Budget.

5.8 The proposed budget also includes provision for a potential additional £0.173m contribution to the Local Government Pension Scheme. This could be required over the next 18 years to reflect the latest triennial revaluation.

5.9 **Ongoing Pressures** – a budget increase of £0.2m (2013/2014 through 2016/2017) serves to mainstream match funding for the retrofit of sprinklers and the installation of portable suppression systems in domestic dwellings in Derbyshire. This funding was previously provided for by a Revenue Earmarked Reserve and serves to support the

Authority's ongoing commitment to promote and champion the Sprinkler Campaign.

5.10 Other ongoing budget pressure increases and reductions reflect the realignment of the overall revenue budget on the basis of need. These include Energy Costs £70,000, Business Rates £40,000, Clothing and Uniforms £45,000. Budget managers have been actively involved and consulted with in the process of arriving at a budget estimate and all growth areas have been challenged through the Budget Development Group.

6. Capital Programme 2013/2014 – 2014/2015

6.1 A report on the Capital Programme is also included on the agenda which presents the proposed Capital Programme for 2013/14 to 2014/2015. 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 will be presented at the March Authority 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 Taxbase/Band D Equivalent Properties

7.1 The Council Taxbase, the number of taxable properties in Derbyshire, has reduced due to the introduction of Council Tax Benefit Localisation. This information was confirmed in writing by the billing authorities by 31 January, the statutory deadline.

7.2 The reduction in the taxbase results in a cost to the Authority of £2.843m which is netted off by an increase in funding received from Government of £3.004m. This funding is included in the Business Rates Retention funding. The taxbase has increased by 0.72% before the impact of Council Tax Benefit Localisation. This is against a government projection of a 0.57% increase which means the Authority has received a greater increase in precept income than originally forecast in the last MTFF.

Council Tax surpluses

7.3 The Authority is entitled to a proportionate share of any surplus Council Tax income from the City and District Council Tax Collection Funds. For 2013/2014 this is estimated to be a surplus of £0.013m. This is a reduction on the 2011/2012 figure of £0.040m with four districts estimating a surplus, three projecting deficits and two neither a surplus or a deficit. Full details are shown in Appendix 2.

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 2013/2014 by £2.3m (5.5%). The estimated Council Tax Freeze Grant, if the Authority chose to accept it, is £0.225m for 2013/2014 and 2014/2015. Assuming that the grant is accepted, this leaves a net funding reduction of £2.08m in 2013/2014. Given the level of funding reduction anticipated in future years and the anticipated duration of public sector austerity, the Authority should consider the following precepting options:

Option 1 – To freeze Council Tax for a Band D property in 2013/2014 at the same level as 2012/2013

7.4 This would mean no increase in the Band D Council Tax and the Authority would receive the Grant of £0.225m in 2013/2014 and 2014/2015. 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 a further £1.4m in total.

Option 2 – To increase Council Tax for a Band D property in 2012/2013 by 1.98% above 2012/2013 levels

7.5 This would increase Council Tax from its current level of £67.17 for a Band D property to £68.50 representing an increase of £1.33. 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.

7.6 Any decisions need to be considered in line with the medium term financial strategy approved by Members in December 2012.

7.7 Table 3 below shows the impact that both options 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 from Options

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
0	44.78 to 134.34	-
1.98	45.67 to 137.00	89p to £2.66

8. Feedback on Integrated Risk Management Plan (IRMP) Consultation 2013/2014

8.1 The Service has undertaken extensive consultation in order to gather public opinion on whether the priorities set are appropriate and in line with the demands and expectations of local communities. Consultation on priorities was done in two stages:

- Stage 1 – Determining Service Priorities;
- Stage 2 – Setting the future direction

8.2 The results of the consultation confirmed the following priorities:

- Preventing fire and other emergencies;
- Protecting people, property and the environment;
- Responding to Fire and Rescue emergencies;

The second stage asked the following questions:

- How we should prioritise spending our budget?
- Whether they support the aims of the Think Sprinkler Campaign.
- If we should manage our resources across the county according to the risk.
- Whether Derbyshire Fire & Rescue Service should recover costs incurred from responding to non-life critical and non-urgent calls?

The most significant outcome in respect of the budget development was support for matching resources to risk with a strong imperative to protect our response capability in the event of reduced funding.

8.3 The Service has considered the consultation response in developing the budget and the Authority should be aware of the outcome in setting the budget. 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. This will particularly be on progress made against savings targets, the Authority's approach in preparing for the challenges ahead and the associated impact to service delivery.

9. Financial Settlements 2014/2015 and Future Years

9.1 The position for 2014/2015 and beyond remains very unclear, with significant uncertainty in the years 2015/2016 and 2016/2017. This was considered in the Medium Term Financial Strategy presented to Members in December 2012.

9.2 However, in line with the government's CSR announcements and the original proposed 'backloading' of funding reductions, Appendix 1 reflects an overall 24.4% reduction in grant (£4.8m) by 2014/2015. The projections allow for further funding cuts for years 2015/2016 and 2016/2017 (8% and 6% respectively in overall funding) in accordance with early indications.

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, it is estimated that further grant funding reductions could amount to around £2.8m cumulatively for years 2015/2016 and 2016/2017. These further reductions have been included in the Proposed Revenue Budget 2013/2014 – 2016/2017 as illustrated in Appendix 1.

9.4 Other factors that are likely to have a significant impact or pressures on the Fire 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 announced a 0% cap on national pay awards across the public sector for 2011/12 and 2012/13, following on from a pay freeze in 2010/11. However, there was a pay award for uniformed staff of 1% in 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 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. The Public Service Pensions Bill was published in September 2012. The Authority continues to assess the implications of this Bill on future pension costs and employer pensions contributions. Financial implications of the Part Time Workers

(Prevention of Less Favourable Treatment) Regulations and Auto Enrolment have been considered as part of the budget setting process.

Public Service Pensions Bill 2012 – MPs passed the Public Service Pensions Bill on 4th December 2012, having debated it at report stage and third reading. The bill implements reforms to public sector pensions. It moves public sector pensions over to a career average scheme and extends the age at which members can draw their pensions.

The government says this will make them sustainable, with costs shared between employers, workers and taxpayers "more fairly". The Medium Term Financial Forecast does not provide for increased costs resulting directly from changes implemented through the bill. The likelihood of increased employer pension contributions in future years should be noted, including the potential impact of state pension reforms from 2017 onwards with a potential 2% increase in employer contributions. Members will be updated as further information becomes available.

Localisation of Business Rates – Under DCLG proposals fifty percent of Business Rates will be localised, with fifty percent being distributed through the formula grant process.

It is proposed that Fire and Rescue Services will receive 2% of the local share (of 50%), with the remaining funding being shared between billing authorities (80%) and County Council (18%).

To a large extent Derbyshire Fire and Rescue Service will be protected from the volatility of fluctuations in business rate income through 'top up' and 'tariff' arrangements designed to ensure that no real reduction in funding is experienced at a local level.

Localisation of Council Tax Benefit – Changes introduced as part of the Welfare Reform Agenda, with Council Tax Benefit being abolished from April 2013, represent a potential ongoing funding reduction for the Authority of up to £0.33m. In October 2012, the Government announced details of a transitional grant scheme for localised council tax benefit. Billing and major precepting authorities will be eligible for grant if they adopt schemes which comply with the new criteria set out by the Government to limit the impact of the changes on low income households. As a precepting authority, DFRS will receive funding for each scheme that complies with the terms of the grant. This funding will not be available in 2014/15.

The Medium Term Financial Forecast assumes full recovery of these costs. The potential for additional funding reductions in future years will be considered as further information becomes available.

10. Four Year Financial Forecast 2013/2014 – 2016/2017

10.1 Tables 4a and 4b provide indicative budgets for the next four years. They assume no further increase in the Council Tax base and exclude Collection Fund surpluses beyond 2013/2014. They take account of the national impacts and pressures highlighted in section 9 with more detailed assumptions highlighted below.

Table 4a: Projected Four Year Financial Plan based on acceptance of freeze grant

	2013/2014	2014/2015	2015/2016	2016/2017
	£	£	£	£
Approved Base Budget Previous Year	**39,185,680**	**38,840,180**	**38,749,710**	**39,842,820**
Pay and Other inflation	800,870	780,280	787,650	805,880
Ongoing Budget Pressures	699,460	142,130	272,270	72,000
Ongoing Budget Reductions				
Effectiveness Programme	-1,319,800			
Revenue Financing of Capital (One off 2012/2013)	-314,330	-885,670		
Other	-211,700	-105,400	-69,100	-30,000
Other adjustments	0	-21,810	102,290	-27,660
Proposed Net Budget	**38,840,180**	**38,749,710**	**39,842,820**	**40,663,040**
Revenue Support Grant / NNDR	-18,863,799	-17,876,000	-17,163,520	-16,044,160
Council Tax Precept	-19,475,477	-19,462,790	-19,848,153	-20,241,147
Council Tax Grant	-780,000	-780,000		
Total Funding	**-39,119,276**	**-38,118,790**	**-37,011,673**	**-36,285,307**
(Surplus) / Deficit after Effectiveness Programme	**-279,096**	**630,920**	**2,831,147**	**4,377,733**

Table 4b: Projected Four Year Financial Plan based on a 1.98% increase in Council Tax

	2013/2014	2014/2015	2015/2016	2016/2017
	£	£	£	£
Approved Base Budget Previous Year	**39,185,680**	**38,840,180**	**38,749,710**	**39,842,820**
Pay and Other inflation	800,870	780,280	787,650	805,880
Ongoing Budget Pressures	699,460	142,130	272,270	72,000
Ongoing Budget Reductions				
Effectiveness Programme	-1,319,800			
Revenue Financing of Capital (One off 2012/2013)	-314,330	-885,670		
Other	-211,700	-105,400	-69,100	-30,000
Other adjustments	0	-21,810	102,290	-27,660
Proposed Net Budget	**38,840,180**	**38,749,710**	**39,842,820**	**40,663,040**
Revenue Support Grant / NNDR	-19,088,799	-17,876,000	-16,956,520	-15,850,660
Council Tax Precept	-19,887,115	-20,267,942	-20,669,247	-21,078,498
Council Tax Grant	-555,000	-555,000		
Total Funding	**-39,530,914**	**-38,698,942**	**-37,625,767**	**-36,929,158**
(Surplus) / Deficit after Effectiveness Programme	**-690,734**	**50,768**	**2,217,053**	**3,733,882**

A 24.4% reduction in government grant (2011/2012 – 2014/2015) and further funding reductions in later years (2015/2016 and 2016/2017) leaves a deficit of around £4.38m over the next four years if Council tax is frozen for another two years. Table 4 above clearly illustrates the impact of the funding reductions on the Authority's budget. Workings assume that current projected savings associated with the Effectiveness Programme (£4.4m) are secured.

As highlighted earlier in the report, not accepting the freeze grant in 2013/14 and 2014/15 reduces the funding gap by around £0.65m by 2016/17. If the Authority accepts the freeze grant in 2013/14 and precepts at an assumed 1.98% in 2014/15 this this is halved to £0.325m.

10.2 General Pay Inflation has been included as follows:

2013/2014	2%
2014/2015	2%
2015/2016	2%
2016/2017	2%

10.3 As such, the budget allows for pay inflation of around £0.5m per annum, £2m over the 4 year programme. This will be reviewed on a regular basis along with other budget assumptions as further information becomes available.

10.4 The budget does not provide for an increase in the employers' pension contribution in 2013/2014 and later years. Budgets will be updated in future years as the implications of the Public Service Pensions Bill become clearer.

10.5 Provision for price increases are based on the following assumptions

2013/2014	2.5%
2014/2015	2.5%
2015/2016	2.5%
2016/2017	2.5%

**Exceptions apply to Electricity and Gas with inflation being applied at a level of 10% 2013/2014 onwards.

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. Its 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 its plans. This is demonstrated through the Forecast Outturn for 2012/2013 included in the Revenue Budget Monitoring Report (anticipated year end position), and more specifically by the favourable Revenue Budget position in 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.

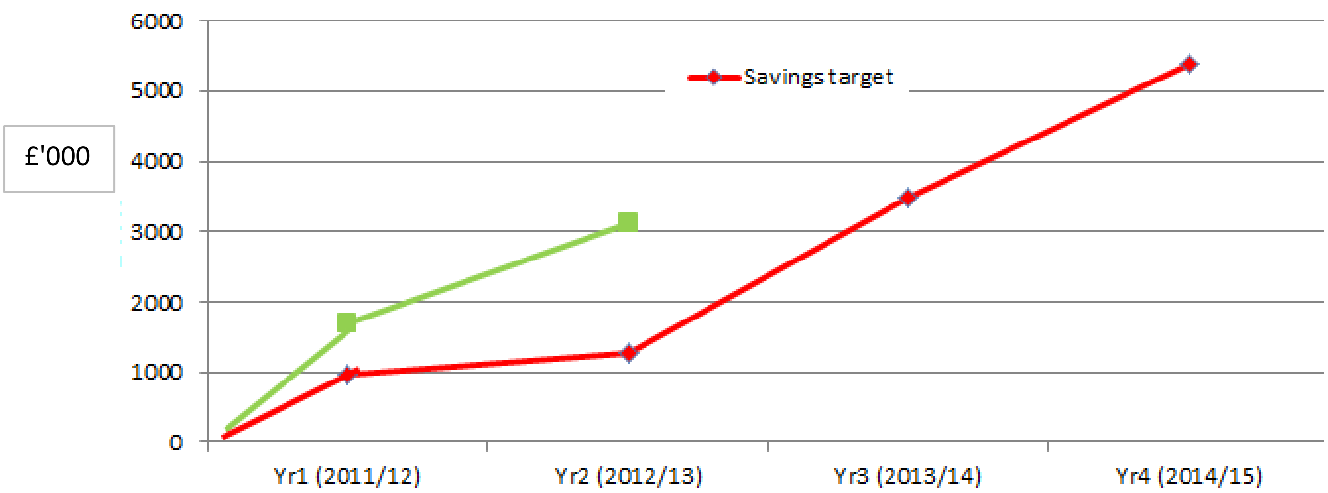
11.3 In order to meet future financial challenges, the Effectiveness Programme identified savings amounting to £5.4m. It is anticipated that of this total, £4.4m will be achieved by 2014/2015 with further work continuing to challenge budgets to reach the savings target.

11.4 The savings position as at December 2012 is as follows:

- Target Savings £5.4m
- Total Projected Savings £6.9m
- Total Projected Ongoing Savings £4.4m

11.5 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)



11.6 The overall position 2011/2012 to 2014/2015, including future years savings is illustrated below.

Project and ID	2011/2012 Total Savings £	2011/2012 Ongoing Savings £	2012/2013 Estimated Total Savings £	2012/2013 Estimated Ongoing Savings £	Total Estimated Ongoing Savings £ 2011/2013	Future Estimated Savings £
Budget challenge	502,500	0	0	0	0	502,500
ID191 - Fire cover	0		13,500	8,300	8,300	8,300
ID 190 - Restructure (non)	709,494	709,494	643,320	393,320	1,102,810	
ID 190 - Restructure (uni)	833,253	833,253	1,754,402	956,587	1,789,840	788,000
ID207 - Agency	308,125	0	100,000	0	0	0
ID 179 - Training, conf.	481,100	0	0	0	0	0
ID 193 - Car scheme	65,700	65,700	9,500	8,000	73,700	8,400
ID 183, 211 - Leases	73,590	73,590	10,810	9,510	83,100	12,600
ID 189 - Equip Replacement	73,000	16,700	50,000	50,000	66,700	0
Total	3,046,762	1,698,737	2,581,532	1,425,717	3,124,450	1,319,800

Future Savings 2013/2014 Onwards

11.7 Future savings are predominantly staffing budget savings £0.8m and Budget Challenge £0.5m. Future staffing budget savings consist of the roll out of further operational staff savings arising from the restructure.

Budget Challenge 2013/2014 Onwards

11.8 In addition to a Managed Vacancy saving of £133,000 (0.5%) Effectiveness Programme savings of £0.5m include the following:

	£
• Transport Related (Includes Operational Equipment Purchase, Fuel, Fleet Modification)	60,500
• Training	104,500
• Training – Inclusion	15,000
• Computer Related (Hardware / Software, maintenance of contracts)	72,300
• Premises Related (Hire of Premises, Contract Cleaning)	15,000
• Office – General (Includes Stationery, Equipment, Postage etc)	41,620
• Member Related (Allowances & Training)	25,000
• Community Safety Consumables	15,000
• Marketing & Publicity	4,000
• Contribution to Partnership Working	15,000

11.9 These savings will contribute directly to the £4.4m ongoing saving resulting from the Effectiveness Programme 2011/2012 – 2014/2015.

11.10 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 2013/2014 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 2013/2014 opening balance of this Invest to Save reserve is £0.62m.

12.4 Expenditure in 2012/2013 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 2012) reported a planned 'underspend' of £4.1m which reflects slippage approved in the capital programme in December. This is covered in the revenue budget monitoring report. This will be earmarked 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 and provide for a greater degree of financial resilience. They will also allow the Authority to manage some of impacts on employees through retirements and staff turnover. However, as Members will be aware, it is a finite fund and cannot be relied on indefinitely and a redefining of the Service for 2016/17 and beyond will be essential for the long term financial stability of the organisation.

Level of Reserves

12.6 The projected 2013/2014 Opening Reserves are summarised below and compared to the Opening Reserves 2012/2013. Projected

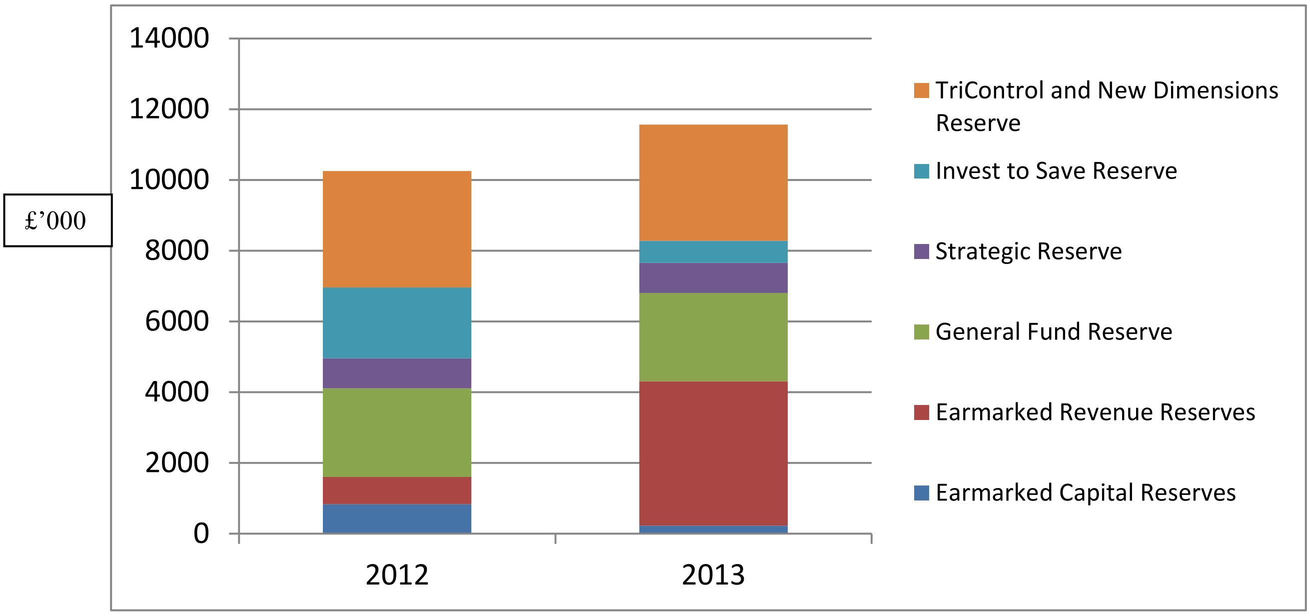
2013/2014 reserves do not take account of any 2012/2013 underspend at this time.

Projected	2012/2013 £'000	2013/2014 £'000
Capital Financing Deferral	0	2,322
Revenue Earmarked Reserves	771	1,758
Capital Earmarked Reserves	837	227
TriControl and New Dimension Reserve	3,289	3,289
Strategic Reserve	850	850
General Fund Balance	2,500	2,500
Invest to Save Reserve	2,005	621
Total	**10,252**	**11,567**

12.7 A more detailed summary of 2013/2014 Opening Reserves is provided in Appendix 3.

12.8 This is shown graphically in Figure 3:

Figure 3: Opening Reserves 2012/2013 and Projected Opening Position 2013/2014



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. Comparison with other Services shows that Derbyshire's General Reserves as at March 2012, as a percentage of net expenditure, are below the 9% average for fire and rescue services with General and Earmarked Reserves as a percentage of net expenditure standing at 20% for the same period against an average of 25%. 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. 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 2014/2015, 2015/2016 and 2016/2017.

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 2013/2014 Opening Reserves are considered to be of an appropriate level to provide financial resilience in the Medium Term.

13. Legal Considerations

13.1 The Authority has a statutory duty to notify its precept to Billing Authorities by 1 March 2013 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:

Simon Allsop, Director of Finance/Treasurer

Contact Officer: *Simon Allsop* **Contact No:** *01332 7712221 x7212*

Background Papers:

Revenue and Capital Outturn Position 2011/12, 7 June 2012

Revenue and Capital Budget Monitoring Report April – July 2012

Revenue and Capital Budget Monitoring Report April – September 2012

Medium Term Financial Strategy 13 December 2012

Capital Monitoring 2011/2012 and Budget Report 2012/2013 – 2015/16, 23rd February 2012