



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

BUDGET GUIDELINES 2009/10

Report of the Chief Fire Officer

Agenda Item No:

Date: 5 September 2008

Purpose of Report:

To inform Members of the likely budget position for 2009/10 and to request that the Fire and Rescue Authority set general guidelines within which the Finance and Resources Committee will develop a detailed budget proposal for 2009/10 to 2011/12.

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1. BACKGROUND

- 1.1 At its meeting on 22 February 2008 the Fire and Rescue Authority set the capital and revenue budgets of the Authority for the years 2008/9 to 2010/11 and the level of Council Tax for 2008/9. These are:

	Budget £s	Band D £s	Increase
2008/2009	44,306,296	65.44	3%
2009/2010	46,061,250	67.40	3%
2010/2011	47,714,707	69.42	3%

- 1.2 It is difficult to speculate with any certainty beyond 2010/11, but for 2009/10 and 2010/11 the levels of Revenue Support Grant and National Non-Domestic Rates are already fixed as follows:

1.3

	£	Increase
2009/2010	24,017,538	4.9%
2010/2011	25,009,684	4.1%

- 1.3 It is important that the Authority considers this budgetary position and provides the Finance and Resources Committee some parameters within which to develop a budget proposal for 2009-2011.

2. REPORT

Financial Position

- 2.1 The financial position of the Authority is strong with good declared levels of Revenue Support Grant for both 2009/10 and 2010/11. Underspendings in recent years have allowed balances to rise above the required level and the Authority also has adequate contingencies. The levels of balances and reserves as at 31 March 2008 were:

General Fund Balance £3.449m

Earmarked Reserves £2.401m

- 2.2 This means in effect that there is less budget pressure on this Authority than some others (particularly those at the grant floor) and that it is therefore unlikely that unpalatable budget options such as cuts will have to be considered.

Inflationary and Other Pressure

- 2.3 The inflation assumptions used in the budget calculations may need to be revised particularly in respect of fuel and energy prices. It also seems unlikely that an assumption for pay awards of 3% can be sustained, although the Nottinghamshire Financial Officers Group which comprises of all the Finance Directors in the County seem to be generally making a 2.5% assumption for APT&C pay (equivalent to non-uniformed pay in Nottinghamshire Fire and Rescue Service).
- 2.4 The Regional Control Centre remains an issue financially as the final costs of this project are still unclear. It has not yet been decided either what proportion of those costs will be borne by Nottinghamshire. The assumption currently built into the budget is that there will be no additional costs nor savings emanating from this project and that those that do will be funded by “new burdens” grants. This assumption may prove to be optimistic.
- 2.5 The costs of the new national radio project (Firelink) are similarly uncertain again, partly because the actual costs are unclear and the method of distribution of these costs within the region has yet to be determined.
- 2.6 In terms of regional cost allocations for both Firelink and the Regional Control Centre there is a concern that as Nottinghamshire is the largest Service in the region the largest proportion of cost may fall to Nottinghamshire. Currently significant economies of scale are enjoyed by Nottinghamshire particularly in respect of Fire Control.

Efficiency Savings

- 2.7 The Fire and Rescue Service does not have to meet the 3% targets set for the rest of Local Government, but instead is required to achieve 1.6%. This reflects the nature of the Service and the changes that it has needed to adapt to. However, unlike Local Government generally, no “one off” savings are allowed and no ongoing savings from previous years can be counted, which effectively makes the 1.6% target cumulative.
- 2.8 All savings are expected to be “cashable” and no reduction in service provision, quality, or quantity is allowed. Previously, non-cashable savings such as increasing productive hours could be claimed, but this is no longer the case.
- 2.9 The challenge for Nottinghamshire is that most if not all of the suggestions for efficiency savings made in the Fire Service Circular have already been done in previous years and therefore cannot be “done again”.
- 2.10 There is also an issue related to the psychology of efficiency savings. In times of financial difficulty it is sometimes possible to persuade Trade Unions and other stakeholders that there is no choice but to change conditions of service, change crewing systems or reduce staff numbers. Attempting to implement any radical change may be difficult when it is already well known that the Authority has received a better than average grant settlement.

Reserves and Balances

- 2.11 As set out above, the Authority has a number of earmarked reserves which have been set aside for specific purposes which will be consumed in the next year or so. It is not proposed at this time to seek to reduce these reserves.
- 2.12 The Authority has balances in excess of £3.4m, which are approximately £1m greater than the risk assessment would indicate are required. The Authority may take the view that these “surplus” balances constitute an opportunity cost and could better be allocated to service provision. It must be remembered however, that balances represent “one off” money and should not be used to support the base budget except under particular circumstances. Such circumstances might include using the balances to cushion the effect of future reductions in grant to allow the Authority to take a measured approach to base budget reductions.
- 2.13 It is possible however, for Members to take the view that this surplus amount of balances could be returned to the tax payer by way of reductions in Council Tax or lower than planned increases in Council Tax over the next year or so. The difficulty with this of course is that it would make any subsequent increase in tax that much higher and may expose the Authority to the risk of capping.
- 2.14 The Authority may opt to use this amount of surplus balances to fund some of its capital programme thus reducing the effects of borrowing in future years. The reduction in the revenue budget requirement depends largely on the assets classes being financed. For example, if £1m was used to finance the following assets then the savings would be as follows:

Asset Type	Life Years	Annual Saving £s
Fire Appliances	10	100,000
Computer Equipment	5	200,000
Buildings	50	20,000

- 2.15 The problem with this approach however, is that when the asset needs to be replaced there is no “cover” available in the revenue budget, so those previous annual savings would need to be added back. If this approach is used it is recommended that long life assets only should be financed in this way.

- 2.16 The other alternative is that the Authority uses this “surplus” in a positive way to further its objectives. This could be done gradually over a period of years or with a single large scheme. The risk of grant funding or other such devices is that when the funding comes to an end, the Authority might be seen to be withdrawing a service and become pressured into mainstreaming the expenditure. Experience with the Community Fund has shown that there has been little interest from the voluntary sector directly and so any such initiative might be best achieved via Local Area Agreement partners. It should be borne in mind that the Authority already has in excess of £700k in reward grant that it is also proposing to use in this way.
- 2.17 The Authority could always opt to simply retain the surplus balances at their current level against the possibility of future events, although this is not a recommended long term strategy.

Fire Formula

- 2.18 Whilst considering the potential for unforeseen events it must be remembered that the Formula Spending Share (FSS) for Fire and Rescue Services is currently being completely revised. It is impossible to speculate as to what this will mean in terms of grant settlements from 2011 onwards however, previous experiences would indicate that quite large swings in grant can result from formula changes. Notwithstanding that there would be some transitional arrangements, it might be considered prudent to delay the decision about any use of surplus balances until the outcomes of this work are known.

Capital Programme

- 2.19 Again at the meeting on 22 February 2008 a Capital Programme for 2009/10 and 2010/11 was set as follows:

	2009/2010	2010/2011
Transport	1,246	1,517
Property	3,356	3,633
Equipment	30	30
I.T and Comms	385	185
	5,017	5,365

- 2.20 Early work shows that in order for the capital base of the Authority to be maintained, it will be necessary to increase the capital financing requirement to approximately £47m by 2010. This will have revenue implications approaching 10% of the revenue budget (currently 5.7%). This needs to be balanced against the capacity of the Authority to deliver the number of capital projects required and in order to do this it is important that a Capital Programme of approximately £5m per annum is maintained on average. It is recommended therefore that the Capital Programme is maintained at approximately its current level.

Taxbase

2.21 The final variable relating to available budget is the level of the Council Taxbase. This is currently 327,063 which means in effect that there are 327,063 Band D properties in the City and County combined in 2008/9. This figure determines the amount of money generated for each £1 of Council Tax levied.

Proposed Guidelines

2.22 Taking all of the above variables and considerations into account the following strategy would seem appropriate for the Finance and Resources Committee to adopt in its development of the budgets for the coming three years:

- i) Continue to maintain a Capital Programme of approximately £5m on average.
- ii) Council Tax increases to be in the range 2.5-3.5% for 2009/10 to 2011/12.
- iii) No planned use of balances until the new fire grant formula is announced.
- iv) Existing budgets to be re-engineered where possible to take account of inflationary pressure.
- v) Estimates of costs for Firelink and Regional Fire Control to be produced as soon as possible and incorporated into budgets.
- vi) Finance and Resources Committee identify and monitor opportunities for efficiency savings.

2.23 Finance and Resources Committee will begin to consult stakeholders as the budget develops.

3. FINANCIAL IMPLICATIONS

Financial implications are set out in full within the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources and learning and development implications arising from this report.

5. EQUALITY IMPACT ASSESSMENT

An initial equality impact assessment has not been prepared in relation to this matter.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

The primary corporate risk is that sufficient financial resources are not available to the Authority. An early guide for the Finance and Resources Committee in terms of the development of the budget will help to manage this risk.

9. RECOMMENDATIONS

Members are requested to approve guidelines set out in Paragraph 2.22 as a framework for the development of the Authority's budgets for 2009/10 to 2011/12.

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Frank Swann
CHIEF FIRE OFFICER