

report

meeting	NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AND RESCUE AUTHORITY	
	FINANCE & RESOURCES COMMITTEE	
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REPORT OF CHIEF FIRE OFFICER

BUDGET OUTLOOK 2008/9

1. PURPOSE OF REPORT

To inform Members of the financial outlook for 2008/9, which will inform the budget process for 2008/9 to 2010/11.

2. BACKGROUND

- 2.1 There has been great speculation about the spending plans of Central Government for 2008/9 and beyond. The Government are currently conducting a Comprehensive Spending Review (CSR07) after which it will become clear how much money is expected to be distributed to Fire Authorities by way of Revenue Support Grant (RSG).
- 2.2 In parallel with CSR07 there is also a partial review of the grant formula for Fire and Rescue Services and it is the combination of these two important aspects that is considered in this report.

3. REPORT

- 3.1 Each time there is a spending review Fire and Rescue Services across the UK make a case to Central Government for the future funding of the service. This is co-ordinated by the Treasurer of South Yorkshire Joint Secretariat with input from Finance Directors, Treasurers and Chief Fire Officers Association (CFOA).
- 3.2 The basis of the Fire and Rescue Service's case for CSR07 is that the service:
 - Is still in transition (modernisation, Community Fire Safety, New Dimensions, Local Partnerships and civil contingencies)
 - Is part of a ten year vision (don't interrupt this part way through)
 - Is central to many of the government's own CSR07 objectives (social and environmental change)
 - Is a high performer (no reductions in quality despite modernisation.)
 - Targets the most vulnerable members of society
 - Makes an increasing contribution to community regeneration

- 3.3 The case is also made that the Fire and Rescue Service has high fixed costs and that it is vital therefore that the base budget is funded.
- 3.4 Nevertheless despite the case made for Fire and Rescue Services there is a low expectation that CSR07 will be anything other than tight. There is a new governmental team in place that is looking to re-establish its priorities. It is clear that whilst Health and Education are very much on the agenda other issues such as Terrorism, the Environment, and the Olympics are also taking a high priority.
- 3.5 CSR07 is set to provide guidelines for the next three years with little room for flexibility and there are also concerns about Central Government's attitude to Council Tax Capping limits and to the continuing impact of the efficiency agenda which is now being seen as inextricably linked to the annual settlement. It would appear that a more robust "savings" regime is about to emerge which casts aside the previous non-cashable and cashable savings in favour of cash releasing initiatives.
- 3.6 The above issues therefore deal with the overall amount of grant to be distributed to the Service (The Quantum) but do not deal with the way that grant will be distributed between services.
- 3.7 Members will be aware that Revenue Support Grant is distributed to individual Fire and Rescue Services by reference to the Formula Spending Share (FSS) of each Authority. This is calculated by the application of a number of underlying formulae.
- 3.8 There is a scheduled review of the formula for Fire in 2010 however in the meantime there is a proposal to update some of the indicators currently used. Initial calculations show that this would reduce the amount of grant payable to Nottinghamshire by approximately £1m.
- 3.9 The government operate a system of floors and ceilings for Revenue Support Grant which ensures that every Authority will at least get a minimum amount of grant. This is referred to as the floor. This mechanism also ensures that no authority will get more than a pre-determined maximum amount (the ceiling) and that all authorities not below the floor "contribute" or give up grant to those authorities below the floor (thus allowing them to have a minimum increase within the same overall control total for Fire).
- 3.10 This mechanism has problems in that those authorities who are well below the floor will be almost constantly supported by others, and those above the ceiling will never achieve their full Revenue Support Grant. This is important because a large element of the FSS formula relates to the amount any given authority currently spends. If it is unable to spend to full capacity because of ceilings or contributions to the floor then it could be argued that significant distortions begin to enter the system.
- 3.11 Also contained within the latest consultation are proposals to phase out the use of floors and ceilings over a period of three years. This may have some advantages for those Authorities above the floor but clearly will cause difficulties for those below the floor.
- 3.12 In the case of Nottinghamshire, whilst the figure quoted for Revenue Support Grant is £1m less than was calculated for 2007/8 the reality is that this is still nearly £2m more than was actually received in 2007/8 due to the contribution that had to be made to those authorities at or below the floor.

- 3.13 It is therefore difficult to assess exactly what the effect of these proposed changes will be if they are implemented. Nevertheless it is important to develop some broad assumptions within which the budget for 2008/9 to 20010/11 can be constructed.
- 3.14 It would seem unlikely that CSR07 will add less than the Government's assessment of current inflation to the overall control total. As an assumption only 2% would not seem unreasonable.
- 3.15 In terms of how this might be allocated to Nottinghamshire it is difficult to make a "safe" assumption. However if it is assumed that a worst case scenario would push the authority below the floor then it is considered that a grant increase of 2% overall would be likely. This would enable the authority to operate at the floor.
- 3.16 Council Tax capping has in the past been set consistently at 5%. However, this is considered by the Treasury to be too high. Nevertheless there needs to be some consideration given to the effect of gearing such that Council Tax rises will always be greater than RSG rises for any authority spending more than the figure for FSS (all Authorities in the UK). A worst case figure therefore might be of the order of 3%.
- 3.17 Efficiency savings present yet another financial challenge. If these are top sliced from grant then this will undoubtedly give rise to serious budget cuts which it could be damaging to the service. It seems more likely that these will be set as requirements as in previous years. This gives an opportunity for savings required as a result of grant reductions and Council Tax capping to be claimed as efficiencies. It will be necessary to make efficiency savings to achieve new budget targets.

The Effect on the Budget

- 3.18 The budget for 2008/9 was estimated to be £43,173,013 at the time the 2007/8 budget was prepared. This budget contained certain assumptions viz:
- i) An RSG Increase of 4%
 - ii) A top slicing of RSG for efficiency savings of 2.5%*
 - iii) A growth in taxbase of 1%
 - iv) An increase in Council Tax of 4.7%
 - v) A contribution from balances of £50,000
 - vi) A 3% increase in the pay budget
 - vii) A selective increase in inflation of 2% but not over all budget heads
- 3.19 None of the above figures take account of other changes to the base which the Authority was unaware of at the time this budget was prepared and which are currently being estimated. Examples of this include the payment of continuous professional development (CPD) to uniformed staff, the restructuring of Human Resources, or the effect of Job Sizing (equivalent to the non-uniformed job evaluation process but for uniformed staff). The above figures are therefore very indicative.

- 3.20 Assuming the actual settlement and restrictions are as set out above the financial position of the Authority could change as follows:

2008/9	£	£
Initial Estimated Budget		43,173,013
Aggregate External Funding (national non-domestic rates (NNDR) and RSG) assuming 2% increase.	(21,494,898)	
3% top slice for efficiency savings	644,847	
Net External Funding		(20,850,051)
Net Amount required from Council Tax		22,322,962
Assumed Council Tax Base	327,506	
Council Tax Required		68.16
Current Council Tax Level	63.53	
Council Tax + 3%	65.44	
Maximum Budget Support		21,431,993
Budget Shortfall		890,969

- 3.21 Clearly a shortfall in budget of some £891,000 will present a significant challenge to the Authority's finances particularly when it is considered that there are still additional pressures to be dealt with. At this stage however it is difficult to bring any precision to the figures.

- 3.22 However if the sensitivity of these figures is examined then the following ranges become apparent:

	£
+/- 1% in Council Tax ceiling	(206,328) to 206,328
+/- 1% in Aggregate External Finance	(210,734) to 210,734
+/- 1% in efficiency savings	(214,949) to 214,949

- 3.23 If it is assumed that a more generous regime will be in place where Aggregate external funding rises by 3%, Council Tax is capped at 4% and efficiency savings are reduced to 2.5% then the following figures might apply:

2008/9	£	£
Initial Estimated Budget		43,173,013
Aggregate External Funding (NNDR and RSG) assuming 3% increase.	(21,705,632)	
3% top slice for efficiency savings	537,373	
Net External Funding		(21,168,259)
Net Amount required from Council Tax		22,004,754
Assumed Council Tax Base	327,506	
Council Tax Required		67.18
Current Council Tax Level	63.53	
Council Tax + 4%	66.07	
Maximum Budget Support		21,638,321
Budget Shortfall		366,433

- 3.24 Given that even a fairly generous settlement figure may still require budget reductions it is clear that the years 2008/9 to 2010/11 will present challenges for the Authority. Unless there are significant shifts in the above estimates it is likely that the Authority may need to consider budget reductions approaching £1m if other obligations for such as CPD payments and Job Sizing are to be met.
- 3.25 These figures are however very preliminary and whilst they indicate significant budget shortfalls this may not reflect the final position. However it is important that planning starts early and, to this end, managers have already been asked to scrutinise their existing base budgets to reveal as many savings as possible.

4. FINANCIAL IMPLICATIONS

- 4.1 The figures quoted above are purely speculative at this stage as the actual settlement date for CSR 07 is mid October and for Revenue Support Grant is early December. It is impossible to give accurate estimates of the effect of these until that time.
- 4.2 It is however essential that the Authority sets a balanced budget and one which will allow the discharge of its statutory duties.
- 4.3 Further reports will be brought to Members as the situation with external financing becomes more clear and also to consider the budget proposals as these are developed.

5. PERSONNEL IMPLICATIONS

There are no personnel implications arising from this report.

6. EQUALITY IMPACT ASSESSMENT

There are no implications for equalities arising from this report however that assessment will need to be considered in greater detail as proposals for budget reductions are considered.

7. RISK MANAGEMENT IMPLICATIONS,

- 7.1 Adequate financial resources are undoubtedly key to the continued provision of high quality services to the community and fundamental to the achievement of the Authority's business plans. For this reason it is important that the Authority considers the likely impact upon its finances of changes in government policy relating the grant regime, council tax and efficiency savings.
- 7.2 Planning at this early stage will allow both managers and elected members the opportunity to consider the likely impacts upon service provision of such changes and enable a measured response to be developed.

8. RECOMMENDATIONS

That Members note the contents of this report and support the actions of management in seeking to develop a budget within the constraints set out above.

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

None.

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