



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

BUDGET GUIDELINES 2013/14 TO 2015/16

Joint Report of the Chief Fire Officer and the Treasurer

Agenda Item No:

Date: 12 October 2012

Purpose of Report:

To request that Members of the Finance and Resources Committee set general guidelines within which Officers of the Authority will develop a detailed budget proposal for 2013/14 to 2015/16.

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1. BACKGROUND

- 1.1 At its meeting on 24 February 2012 the Fire and Rescue Authority set the capital and revenue budgets of the Authority for the years 2012/2013 to 2014/2015, the precept for 2012/2013, and the anticipated levels of Council Tax for the period 2012/2013 to 2014/2015. These were:

	Budget £m	Band D £s Per annum	Band D £s Per week	Increase
2012/2013	46,494	69.69	1.34	0.0%
2013/2014	44,393	72.13	1.39	3.5%
2014/2015	43,986	74.65	1.44	3.5%

- 1.2 Members will be aware that the budget figures for 2013/2014 and beyond were prepared on the basis of a substantial restructure of the Authority and a review of Fire Cover both of which have enabled anticipated budget reductions to be contained. This was also prepared in the expectation of further reductions in grant for 2013/2014 and 2014/2015.
- 1.3 It is clear that the public finances remain under significant strain and therefore the same assumptions have been made for grant as were used in the 2012/2013 budget process.
- 1.4 Officers of the Authority will be preparing a detailed budget over the next few months, culminating in budget proposals which will be brought back to this Committee in January 2013 for approval for presentation to the full Fire Authority in February 2013.
- 1.5 The Fire and Rescue Authority on 21 September 2012 requested that Members of the Finance and Resources Committee propose budget guidelines to allow Officers to develop detailed budget proposals and prepare suitable questions to be put to the public by way of consultation.

2. REPORT

- 2.1 The Authority's Medium Term Financial Strategy sets out a number of objectives and principles which directly relate to the preparation of the budget. Although the current three year Strategy expires this year, these objectives will continue into the next version of the Strategy and should underpin the budget guidelines set by Members:

- To support sustainable service delivery by the use of revenue budgets, reserves and balances,
- To seek to minimise the impacts on the Council Tax payer of fluctuations in demand for resources,
- To hold a working balance sufficient to respond to unexpected events and/or opportunities,
- To ensure that the capital base of the Authority can be maintained within
- affordable and sustainable limits,

- To provide forward looking indications of Council Tax levels,
- Council Tax rates will be transparent and sustainable. This means that budgets will not be lowered and supported by balances unless this is part of a long term sustainable strategy and approved by Members.
- Longer term financial planning will take account of the possible use of reserves and balances to minimise the effect of reductions in funding as a means of transition but not of permanent support.

2.2 The budget requirement i.e. the amount of money the Authority will need to spend each year will be prepared by Officers in consultation with budget managers and in the context of the current Community Safety Plan (IRMP). This process is under way but will not be completed until the end of November, so working assumptions about the amount of the budget requirement will continue to be based on last year's estimates until then.

2.3 The budget requirement is funded from two main sources: council tax precept, which represents around half of total income and external finance from Central Government, comprising Revenue Support Grant, National Non Domestic Rates and Council Tax Freeze Grant, which makes up the other half. A number of external factors will impact on the funding of the budget over the next three years. These are summarised here and potential impacts are explained in further detail later in the report:

- Revenue Support Grant for 2013/2014 (and possibly for 2014/2015) is expected to be announced in mid-December. The amount for the Authority is not yet known but is anticipated to continue to reduce in line with the Government's Comprehensive Spending Review 2010 programme of local government funding cuts.
- There is likely to be a Council Tax capping limit above which a referendum would be triggered, but the amount of such a limit is not yet known.
- With effect from April 2013, the localisation of Council Tax support may impact negatively on the Authority's taxbase.
- The Council Tax Freeze grant received in 2012/2013 for one year only was £699k. The loss of this grant must be factored into the budget.

2.4 Current budget plans have been prepared on the basis of assumed rises in Council Tax of 3.5% in each of the years 2013/2014 and 2014/2015. This would still leave a budget shortfall of £580,000 to be met in 2015/2016 as the council tax freeze grant is removed.

2.5 The effect of reducing this council tax increase to zero would be shortfalls in each of the years as follows:

	Annual Shortfall	Cumulative	Available Balances at 31 March
2013/2014	£816,000	£816,000	£1,984,000
2014/2015	£1,700,000	£2,516,000	£284,000

The cumulative figures are shown to illustrate the underlying impact on balances and the movement in balances is shown in the following paragraph.

- 2.6 Shortfalls can be addressed temporarily by the use of surplus balances, but this would have to be as part of a planned budget reduction regime. In the above example however, even the use of balances will not solve the underlying problem. The effect on balances is shown below:

Estimated Balances 2013/2014	£8,200,000
Less required balances	£3,400,000
Opening available Balance 2013/2014	£4,800,000
Use of Balances already planned	£2,000,000
Use of Balances 2013/2014	£816,000
Opening available Balance 2014/2015	£1,984,000
Use of Balances 2014/2015	£1,700,000
Opening available Balance 2015/2016	£284,000

The problem with this approach is that in 2015/2016 almost £3,000,000 would be required from balances to support the same levels of spending. This figure is far greater than the level of usable balances and therefore the burden would fall entirely on Council Tax or budget cuts.

- 2.7 Planned budget reductions of £3.0m would require additional savings of approximately 11% which when pay awards and inflation are considered could be of the order of 15% or more. The percentage figure however becomes largely irrelevant when set against the cost profile of the Fire Authority.

- 2.8 The current budget profile shows that the budget is split as:

Uniformed Pay	£29m
Non-Uniformed Pay	£5m
Transport/Premises	£4m
Capital Financing	£4m
Communications/IT	£3m

- 2.9 The “back office” of the Fire Authority is quite small when compared with the size of the front line service and those areas which are directly public facing. The value of public facing services and unavoidable external costs of capital are probably of the order of £39.5m of the total budget thus leaving £6.5m as the true value of back office services. It is inconceivable that savings of £3m could be made from a £6.5m budget without compromising the Authority’s ability to fulfil its statutory responsibilities which leaves the only possible response to be to remove some customer facing services.
- 2.10 The original Fire Cover Review offered some alternative options for savings by way of further adjusting how the front line service is delivered but even

these quite severe measures will be insufficient to meet the requirement for reductions. It may be that more radical responses would be necessary.

- 2.11 There is no doubt therefore that if a zero increase in council tax is considered for 2013/2014 and beyond then the service will need to develop options to remove almost £3,000,000 from the base budget over the next two years and that this cannot be achieved without changes to customer facing services.
- 2.12 The potential difficulty with this approach is that to meet statutory requirements it will be necessary to consult the public about any proposed changes via the IRMP process which is due to take place during 2013. Providing that balances can be used to support expenditure in the meantime the IRMP process can begin to consult the public on reductions in service provision to meet the overall budget targets.
- 2.13 As set out in paragraph 2.2 above the budget for 2013/2014 and 2014/2015 was prepared on the basis that there would be an increase in Council Tax bills of 3.5% in each of those years. This position would not give the Fire Authority any financial difficulties beyond those already factored into the budget process providing that the underlying assumptions particularly in relation to grant funding remain sound.
- 2.14 It is likely that government will establish a capping limit for 2013/2014 but this has yet to be announced. The limit for Fire for 2012/2013 was 4% which would have allowed a 3.5% rise as planned. If this changes in any way then the effect on funding will be broadly £250,000 for every 1% variation. If the assumption is made that the capping limit will remain at 4% then a council tax increase of up to 3.8% would allow the Authority to remain safely within the cap.
- 2.15 It is similarly unclear at the present time what the reduction in grant funding to Nottinghamshire will be although the budget assumption is that it will decrease by 18.5%. Every 1% variation in this figure will again broadly move funding by + or - £250,000.
- 2.16 The yield from Council Tax is based on two factors; the actual Band D charge and the taxbase to which it is applied. It is usual to assume a small growth in taxbase or at least a steady state and therefore the only significant variable is the level of Band D taxation. The localisation of Council Tax Support (or benefit) will almost certainly cause some changes in taxbase although it is unclear what these will be.
- 2.17 In 2010/2011 the budget of the Fire Authority was £48.110m whereas in 2014/2015 it will be £43.986m a reduction over this period of £4.124m which is a very significant change. This reduction can be achieved by careful planning and management but only if the above assumptions hold true.
- 2.18 The Finance and Resources Committee is charged with recommending a budget and level of Council Tax to the Fire Authority in this period of uncertainty and against a backdrop of significant budget reductions. The Fire Authority on 21 September 2012 recommended that the Finance and

Resources Committee develop appropriate budget guidelines for Officers, taking account of relevant information known at the time.

- 2.19 Any reduction in or failure to maintain the base budget over time will have an exponential effect as described in 2.3 above. However an assumption that council tax will rise by 3.8% in each of the three years under consideration or remain at zero for each of the three years is probably unrealistic. There are in fact a number of scenarios that could ensue all of which will require a reduction in the budget of between £0 and £3m over a three year period but most of which may require both increases in council tax and budget reductions at some point. This assumes that balances can be used to cushion the effects of any changes. Any reductions will be in addition to the £4.124m already in progress.
- 2.20 This Committee needs to consider to what extent the Fire Authority might be prepared to use increases in Council Tax as a means of protecting the service delivery of the Fire Authority notwithstanding of course the statutory responsibilities which cannot be breached.
- 2.21 Referring back to paragraph 1.1 above it can be seen that the current level of Council tax at £69.69 equates to £1.34 per week at Band D. A rise in this figure by 5p (3.5%) might not be considered particularly significant to the public particularly when the impact of not doing so could result in reductions in service provision.
- 2.22 It might be considered prudent to ask this question of stakeholders and members of the public, not to tie the hands of Fire Authority Members, but to provide a general indication of whether the public are prepared to pay a little more to protect front line services or indeed other areas such as Community Safety activity. The question could be phrased as follows: “would you be prepared to pay up to 5p per week more in council tax to maintain current provision of fire and rescue services?”
- 2.23 It is difficult to be precise about the impact that budget reductions will have on the service but as a general guide it might be worth considering the following:

Annual Cost of “Back Office” Services

Finance and Resources Department (£1.9m pay £5.9m non-pay)

- Information Technology
- Business Systems
- Finance
- Payroll
- Business Risk Management
- Estates
- Procurement
- Transport
- Equipment

Corporate Support Department (£5.6m pay* £0.8m non-pay)

Corporate HR
HR Operations
Occupational Health and Fitness
Equality and Diversity
Health, Safety and Environmental Risk Management
Employee Relations
Projects
Learning and Development
Performance Management
Corporate Communications
Policy and Planning
Partnerships and Engagement
Administration

* This figure includes a number of operational officers providing fire cover as part of their roles.

Annual Costs of Frontline Services (£24.5m pay £0.5m non-pay)

Approximate cost of a Wholetime Appliance £1m
Approximate cost of a Retained Appliance £250k

2.24 As mentioned in 2.19 above there are a great number of possible scenarios for levels of Council Tax over the next three years ranging from 0 to 3.8% in each of the following three years. The following illustrations show some of those scenarios:

Increase in Council Tax	2013/2014 Shortfall (surplus)	2014/2015 Shortfall (surplus)
0%	816,000	1,700,000
1%	(38,000)	1.190,000
2%	(269,000)	719,000
3%	(503,000)	241,000
3.5%	(620,000)	0
3.8%	(690,000)	(147,000)

2.25 The above figures assume that the same percentage is applied in each of the two years. It is noticeable that all of the scenarios apart from 0% will generate surpluses in the first year. This is because if increases in year 2 are to be kept below 4% (the level of the 2012/2013 cap) then larger increases than really required in 2013/2014 need to be made to create a balanced base budget by 2014/2015.

2.26 For example a 1% increase in Council Tax in 2013/2014 would create a surplus of £38,000 but even if council tax was to be increased by 3.8% in

2014/2015 budget reductions of £531,000 would be required to balance the 2014/2015 budget.

- 2.27 A simple rule of thumb for this calculation might be to say that if the budget is to be balanced without further reductions being sought then the sum of the increases over the two year period must add up to 7 but the total in any given year cannot exceed 3.8. This assumes that the cap remains at 4%.
- 2.28 Each 1% change to these figures either plus or minus will require movement of £250,000-£300,000 in the budget depending which year the change is made.
- 2.29 The situation for 2015/2016 is even less clear than that for 2014/2015 as this will be the first year of any new Comprehensive Spending Review period if there is to be one. It will be possible to build up some budget assumptions based on the budget for 2014/2015 but there can be no real estimates relating to Council Tax as the grant position is completely unknown. Hopefully this will emerge from DCLG towards the middle of December and a clearer picture can be provided to Members at the January committee meeting.
- 2.30 There are still many unknowns in connection with this budget period which relate to levels of grant, taxbase adjustments, and the localisation of business rates, all of which could cause variations in the level of external funding. Officers will take into account the funding announcements by ministers as and when these become known.
- 2.31 Bearing in mind the Medium Term Financial Strategy objectives set out in paragraph 2.1, which focus on the stability and sustainability of the Authority's finances, the following guidelines are suggested to Members as being an appropriate structure within which Officers could work to construct a three year budget.
- i. Revenue budgets to be prepared for 2013/2014 to 2015/2016 assuming that Council Tax levels increase by 0%, 2%, 3.5% or 3.8% in any or each of the years 2013/2014 to 2015/2016, with significant fluctuations in council tax levels between the years to be avoided. The implications for the levels of required budget reductions to be shown in each scenario.
 - ii. The revenue budget for 2013/14 to be prepared on the basis of plans which have already been approved by Members, with no additional budget reductions taken in that year other than those proposed by budget managers in the course of close examination of base budgets to identify savings. If, following the grant announcement, budget reductions are required these will be funded by the use of balances for 2013/2014 to allow time for potential cuts to be identified and consulted upon as part of the IRMP process before implementing in 2014/2015.
 - iii. The use of surplus balances to be factored into budget preparation only where this either temporarily supports the budget whilst longer term reductions are planned for, or where such use of balances results in longer term revenue budget savings.

- iv. Capital budgets to be prepared which are affordable and sustainable.
- v. Officers to consult on the range of budget proposals and in particular ask stakeholders whether or not they are happy to pay more council tax in future years than they do currently.

3. FINANCIAL IMPLICATIONS

The options for Council tax increases confirmed by Members will form the basis of budget options covering the 2013/14 to 2015/16 period, which will be considered by both the Finance and Resources Committee and the Fire and Rescue Authority before a balanced budget is approved.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

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

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report sets out a framework within which the budget is to be prepared.

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 over the medium term. Officers will seek to manage this risk when preparing budgets within the guidelines approved by Members.

9. RECOMMENDATIONS

- 9.1 That Officers are instructed to prepare a set of budget options as set out in paragraph 2.31 above for presentation to the next Finance and Resources Committee.
- 9.2 That Members consider whether to consult stakeholders with the regard to potential rises in Council Tax to protect services.

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

None.

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