



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

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

BUDGET PROPOSALS FOR 2015/2016 TO 2017/2018 AND OPTIONS FOR COUNCIL TAX

Report of the Chief Fire Officer

Date: 16 January 2015

Purpose of Report:

To allow Members to consider the options for the recommendation of a balanced revenue budget over the next three years to the Fire Authority for acceptance. Implications for Council Tax are also considered.

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1. BACKGROUND

- 1.1 The Finance and Resources Committee is charged with considering the financial position of the Authority and proposing revenue and capital budgets to the Fire Authority for approval. The Fire Authority will also decide upon levels of Council Tax for the coming year and will consider the recommendations of the Finance and Resources Committee in doing so.
- 1.2 In late December, the government announced the provisional grant settlement for 2015/2016 but made no estimates in respect of 2016/2017 or 2017/2018. This means that there can be no certainty around budget plans for the years beyond 2015/2016 and therefore best estimates have needed to be used.

2. REPORT

CAPITAL BUDGET PROPOSALS 2015/2016 TO 2017/2018

- 2.1 The Authority maintains a sustainable Capital Programme that has been planned out over an extended period. This programme seeks to replace appliances and vehicles when they are approaching the end of their useful life, maintains a rolling programme of ICT replacements and a property programme that will both ensure that property remains fit for purpose, is appropriately located and can be contained within the internal capacity of the organisation to complete.
- 2.2 The overall programme also reflects elements of estimated slippage from 2014/2015 as set out in the following table.

The proposed Capital Programme for 2015/2016 to 2017/18 is therefore as follows:

	Estimated Slippage	2015/2016 £000's	Total 2015/2016 £000's	2016/2017 £000's	2017/2018 £000's
Transport					
Rescue Pump Replacement	253,020	623,860	876,880	937,695	939,615
Special Appliances	272,000	0	272,000	75,000	0
Command Support Unit	120,000	0	120,000	0	0
Appliance Eqpt	36,405	16,960	53,365	25,440	25,440
Light Vehicles	394,500	381,020	775,520	479,240	205,405
Total Transport	1,075,925	1,021,840	2,097,765	1,517,375	1,170,460
Equipment					
Equipment for Specials	0	15,000	15,000	0	0

Replacement Breathing Apparatus	0	0	0	0	600,000
Radio Replacements	0	0	0	0	0
Total Equipment		15,000	15,000	0	600,000
Property					
Retention - Retford FS	0	60,000	60,000	0	0
Retention - London Road	0	0	0	0	60,000
Construction of London Road	0	4,000,000	4,000,000	439,400	0
Fire Station Project Initial Design- Worksop	0	75,000	75,000	0	0
Fire Station Project Initial Design - Newark	0	75,000	75,000	0	0
Fire Station Project Initial Design - Hucknall	0	75,000	75,000	0	0
Purchase of Land	0			400,000	400,000
Construction Stage of New Station (Assumed commence in Sept 2016)	0			1,400,000	1,100,000
Construction Stage of New Station (Assumed commence in Nov 2017)	0				800,000
Property Total	0	4,285,000	4,285,000	2,239,400	2,360,000
I.C.T					
Renewals Programme	0	140,000	140,000	140,000	140,000
Mobile Computing	0	60,000	60,000	20,000	20,000
PABX Replacement	25,000	0	25,000	0	0
Business Process Automation	150,000	0	150,000	0	0
CFRMIS Online	47,000	0	47,000	0	0
ICT Total	222,000	200,000	422,000	160,000	160,000
IT Systems					
Agresso Upgrade	0	70,000	70,000	0	0
Tranman	0	25,000	25,000	11,000	0
Payroll System	0	40,000	40,000	0	0
IT Systems Total	0	135,000	135,000	11,000	0
Total Programme	1,297,925	5,656,840	6,954,765	3,927,775	4,290,460

- 2.3 Rescue pump renewals budget changes the usual practice of replacing four appliances each year and reduces this to two in 2015/2016 taking account of the reducing fleet. This rises to a steady three per annum from 2016.
- 2.4 The special appliances budgeted for are the Breathing Apparatus Unit and the Environmental Protection Unit both of which are overdue for replacement but the plan is to re-body two existing chassis which have been later than anticipated in release.
- 2.5 Equipment relates entirely to the replacement appliances.
- 2.6 The light vehicle programme has been virtually suspended during recent restructures and vehicles have been allowed "run on" beyond their optimal disposal points. This was to avoid purchasing vehicles which may not have been required going forward. This position is beginning to stabilise and therefore the light vehicle programme is to some extent playing "catch up".
- 2.7 The two largest items on the equipment programme relate to the replacement of radio sets across the service and the eventual replacement of breathing apparatus in 2017/18. This purchase has been put back due to the most recent assessment of equipment showing that there is more useful life left in the current sets.
- 2.8 It has been suggested to other services that these procurements might be best achieved in partnership to bring about a gradual harmonisation of equipment.
- 2.9 The property programme remains focussed on the rebuild or refurbishment of a fire station per annum on average. It is not possible to both start and complete a building project within a single financial year and therefore a number of projects have been considered and feasibility studies carried out. The actual stations selected for rebuild or refurbishment will depend on other factors and actual project proposals will be brought back to this committee. This budget simply sets aside the resources to continue with the Authority's sustainable capital programme which will ensure that all property assets remain fit for purpose over time.
- 2.10 The most significant project is the construction of a new fire station on London Road but Members will also note the design works being commissioned for Worksop, Newark and Hucknall stations.
- 2.11 The ICT programme covers a number of replacement items and provision for the general expansion of ICT usage across the organisation. The business automation project remains an achievable aspiration which, now that improved infrastructure and appropriate staffing resources are in place, will press forward in 2015/2016.

- 2.12 The payroll system for the Authority is currently provided by Nottinghamshire County Council and this has been a very successful arrangement since the Authority was formed in 1998. The County Council have recently changed their payroll system to SAP which is an enterprise resource management system incorporating finance, HR and Payroll. The Fire Authority's payrolls have been successfully transferred to the SAP system but unfortunately the process of accurately interfacing payroll data into the authority's Agresso financial system is proving very difficult. There are also issues around the lack of any real interfaces between the Authority's new HR system and SAP payroll which creates a requirement for double data entry and scope for error. It has been decided therefore that the Authority would be better served by acquiring a new payroll system. Discussions are taking place with regional partners with a view to collaborating on this project to provide a single payroll solution.
- 2.13 Members will be aware that the Authority's financial system is a joint procurement with both Leicestershire and Derbyshire. This has worked very well after a few teething problems and the benefits of a modern system and the resilience that is provided by having two other organisations on the same system are beginning to come through. Part of our commitment to this joint working is that we follow the same upgrade pathway as other partners and it has been decided that the time to move to the next version has arrived. We are now two versions behind the latest version and the suppliers have given notice that they will shortly withdraw support for the version that is in use. This does not expose the Authority to any immediate risk but it will require an upgrade in 2015/2016 if the joint arrangement is to continue.
- 2.14 A level of "over programming" has been assumed within this programme to reduce the amount of revenue provided to support a capital programme which may slip for reasons beyond the control of the Fire Authority.

REVENUE BUDGETS 2015/2016 TO 2017/2018

- 2.15 The Authority had been faced with significant budget reduction targets over recent years and the forthcoming years 2015/2016 to 2017/2018 are no exception. As part of a longer term financial plan the Authority continues to rise to the challenge of seeking out budget reductions and has recently gone through a significant review of the more significant base budgets under the supervision of the Director of Finance and the Chair of the Finance and Resources Committee. This process has been very useful and budget managers engaged positively with this process which has enabled significant budget reductions to be made.
- 2.16 The key to responding to the challenge of reducing funding central government has been careful planning, sensible use of balances and the adoption of longer term financial strategies which not only seek to address immediate problems, but also to maintain a stable financial platform which will enable the Service to continue to develop within this reducing resource envelope.

- 2.17 The Authority has very clear objectives and underlying values which are set out in the Corporate Plan and these budget proposals have been prepared on the basis that there should be no deviation from those underlying principles and that the Authority should press ahead with the medium term plan previously agreed.
- 2.18 Notwithstanding the above it is considered that it is possible, given the level of reserves and balances, to take an increased level of risk within the revenue budget to avoid having to make further reductions which may themselves result in underspends going forward.
- 2.19 At its meeting in February 2014 the Authority, set outline budgets for 2015/2016 and 2016/2017. These figures were set before the base budget review had been undertaken and before any detailed work had been carried out on these budgets. Members will also recall that a deficit of the order of £1.5m was predicted for 2015/2016 which needed to be resolved in the 2015/2016 budgeting process.
- 2.20 The predicted budget requirement for 2015/2016 was £43,209,162 and the following table focusses on the changes to that figure to get as close to the available funding as possible.

	2015/2016 £m
Requirement Identified in 2014/2015 budget	43,209
Changes in 2015/16 process	
Budget Managers Adjustments	-51
Administrative Pay	-249
Wholetime Pay	-940
Control Pay	+14
Retained Pay	-156
Pensions	+45
Zero Based Budget Review	-122
Loss of Income	+119
Revenue Impact of Capital Financing	-96
Other	+26
Total Changes	-1,410
Budget Requirement	41,799

- 2.21 The above figures, of course, reflect changes to the assumptions that had been made in February 2014. It is perhaps useful therefore, for the larger items to consider the totality of these changes to the base budget against the original 2014/2015 base.

These figures are given in the following tables:

Administrative Pay	Estimated change to base	Actual change to base	Difference in estimates
	£	£	£
Pay Award now known	65,455	77,714	12,259
Increments	68,666	70,063	1,397
Vacancy Factor	0	-118,959	-56,844
JE Contingency	20,000	-14,605	-34,605
VR Ph2 Net Savings	-169,862	-153,023	16,839
Increase in Superannuation	48,356	0	-48,356
2 x Support Work Posts	0	-54,008	-54,008
Team Leader Post	0	-34,082	-34,082
p/t Administrator	0	-11,522	-11,522
Command Suite Admin	0	-28,910	-28,910
Head of Control 33%	0	21,000	21,000
Other	0	-2,885	-2,885
Total Changes		-249,217	

Wholetime Pay	Estimated change to base	Actual change to base	Difference in estimates
	£	£	£
Pay Award (est 1%)	203,410	163,262	-40,148
Reduction of Buffer (now spread over other pay heads)	-136,488	0	136,488
Additional Bank Holidays	59,730	53,424	-6,306
Removal of 2 nd Appliance at Highfields	0	-781,951	-781,951
Movement between pension schemes	-2,631	-234,082	-231,451
Budget for ARAs	0	40,000	40,000
ARA for systems administration	0	1,500	1,500
Change in Competent/Development assumption	0	-209,776	-209,776
Methodology Change	0	27,572	27,572
Total Changes		-940,051	

Retained Pay	Estimated change to base	Actual change to base	Difference in estimates
	£	£	£
Pay Award (est 1%)	27,106	16,856	-10,250
Enhanced Crewing (Saving removed)	-303,428	0	303,428
Removal of Mansfield appliance	0	-103,065	-103,065
Net effect of starters/leavers	0	90,145	90,145
Movement between pension schemes	0	39,680	39,680
Removal of surplus budget	0	-200,000	-200,000
Total Changes		-156,384	

FUTURE YEARS

2.22 Future year base budgets largely follow on from the 2015/2016 budget but even after allowing for certain budget reductions in 2015/20-16 carrying through there will still be an additional requirement in 2016/2017 of over £1.444m of which 80% is due to pay inflation. There are some large figures coming through for interest charges and for Minimum Revenue Provision but this reflects the fact that these budgets have been artificially reduced by revenue contributions in the past. There are similar increases amounting to some £1.317m predicted for 2017/2018. These figures become important when considering the likely funding streams going forward.

FINANCING THE BUDGET

2.23 The Authority primarily receives income from Revenue Support Grant, Business Rates and Council Tax. The government announced the provisional settlement on 18 December 2014 and this is being used for planning purposes as the final settlement is not expected until the end of January 2015. Experience shows that there is likely to be little change from the provisional figures.

2.24 In making predictions about budget financing some assumptions have been made. These are:

- i) **That business rates collected by the billing authorities will be broadly in line with the assumptions made in the provisional settlement.**

This is unknown but the assumptions in the provisional settlement seem to be broadly in line with the figures declared by the billing authorities last year.

ii) That the taxbase will increase by 1% across the County and City

This again is unknown until 31 January 2015 but early indications are that this assumption will hold up.

iii) That the actual settlement is the same as the provisional.

This is almost a given in that there is hardly ever a change in these figures unless there has been a major error.

iv) That there are no substantial surpluses or deficits on the collection accounts.

This is probably the most risky area in that billing authorities will not declare their position until the very last minute and the issue of Council Tax arrears is not only very sensitive but the actual amounts declared as uncollectable will vary from one authority to another. It has been policy at NFRS not to take account of these figures when budgeting but instead to deal with any variances through the general reserve.

2.25 Government have only announced provisional figures for 2015/2016 even though good practice means that NFRS need to make estimates for a three year period. The figures used below therefore use estimates for 2016/2017 and 2017/2018 provided by the Local Government Association.

	2015/2016	2016/2017	2017/2018
	£	£	£
Revenue Support Grant	9,772,122		
Business Rates Assumption	3,126,684		
Top Up Grant	6,477,078		
Council Tax Freeze Grant Previous years	575,023		
Freeze Grant 2013/2014	235,811		
SFA Adjustment	143,564		
Total Grant Yield	20,330,282	18,703,860	17,394,590

2.26 The Secretary of State has announced that Council Tax Freeze grant will be available in 2015/2016 to those authorities that agree to freeze council tax. The following table then brings together all of these figures and presents the position that the authority would be in if there was no change to the level of council tax.

	2015/2016 £	2016/2017 £	2017/2018 £
Total Grant Yield	20,330,282	18,703,860	17,394,590
Budget Requirement	41,799,429	42,848,032	43,841,658
Balance to be met locally	21,469,147	24,144,172	26,447,068
Council Tax Yield*	20,936,152	21,145,513	21,356,968
Budget Shortfall	532,995	2,998,659	5,090,100
Deficit			
Council Tax Freeze Grant	244,066	488,132	732,198
Remaining Budget Shortfall	288,929	2,501,527	4,357,902

*Assumes a 1% rise in tax base but no rise in Council Tax

The above figures suggest that further savings of approximately £4.5m will be required by the start of the 2017/2018 financial year.

2.27 In the settlement the government have stated that any authority wishing to increase Council Tax by 2% or more would need to hold a referendum. This appears to create a ceiling that Authorities can use to determine whether to increase Council Tax or not in 2015/2016. There has been no announcement regarding limits for 2016/2017 or 2017/2018 and so the assumption being made is that would be the same. There has also been no announcement regarding possible freeze grants in 2016/2017 or 2017/2018 and therefore no assumptions have been made.

2.28 There are a number of other adjustments which can be made to budgets over the next few weeks and therefore it is not essential that further reductions are sought at this stage for the 2015/2016 budget. However the challenge for future funding remains a serious one if the predictions of grant reductions hold good.

BALANCES

2.29 There is no planned contribution to or from balances within this budget paper. General balances stood at £6.342m in March 2014 and are anticipated to rise by approximately £290k as a result of underspends in 2014/2015.

QUESTIONS FOR ELECTED MEMBERS

2.30 The Fire Authority at the December 2014 meeting set out 4 options for the Finance and Resources Committee to consider. These were:

- A reduction in Council Tax
- A zero increase in Council Tax
- An increase in council tax below the referendum ceiling
- An increase in Council Tax which would require a referendum

2.31 A reduction in Council Tax of 1% would reduce yield by approximately £200,000 and permanently remove this from the base. It would however attract £243,000 in freeze grant. The problem with this approach of course is that it makes the problem worse going forward and other than a statement to taxpayers would actually only reduce bills by 2.5p per week. There have been a few local authorities that have benefitted from increased grant and it is perhaps understandable that they might wish to reduce Council Tax however against the backdrop of reducing grant it is difficult to recommend such an action.

2.32 A zero increase in Council Tax that would attract freeze grant is set out in paragraph 2.25 above and shows that the deficit for the three years in question is 410,392, £2,886,325 and £5,061,029. It also has the disadvantage that whilst the freeze grant is to be consolidated into the base it can still be taken into account for future grant cuts as it forms part of the Baseline Funding Assessment.

2.33 A proposal to increase Council Tax by 1.95% in each of the three years of the budget strategy would yield the following results:

	2015/2016	2016/2017	2017/2018
	£	£	£
Total Grant Yield	20,330,282	18,703,860	17,394,590
Budget Requirement	41,799,429	42,848,032	43,841,658
Balance to be met locally	21,469,147	24,144,172	26,447,068
Council Tax Yield*	21,345,739	21,978,834	22,631,473
Budget Shortfall	123,408	2,165,338	3,815,595
Deficit			
Council Tax Freeze Grant	0	0	0
Remaining Budget Shortfall	123,408	2,165,338	3,815,595

- 2.34 It is difficult to imagine why an Authority such as NFRS would wish to consider a referendum in 2015/2016 with such a small shortfall to make good. The only obvious advantage is that as there is a general election in May it would be possible to hold a referendum for significantly less cost than would usually be the case. Nevertheless the cost of losing one would still be significant as all the Council Tax bill would need to be reprinted and sent out. The obvious problem it seems is that in order to make a referendum worthwhile there would need to be a significant rise in taxation which in 2015/2016 could only be used to increase balances.
- 2.35 There are obvious advantages to getting any council tax increase permanently into base budget and not relying on central government for continued funding of freeze grants. Government has recently attempted to avoid the “cliff edge” of withdrawing freeze grants but it always remains a possibility that this could be withdrawn at some future time.

BUDGET OPTIONS

- 2.36 The gravity of the decisions required to solve the emergent problems for 2016/2017 and 2017/2018 will be beyond the scope of this Committee with the limited information that is available with regard to risk and budget options. The decision required at this time is which of the four options this Committee wishes to recommend to the Fire Authority.
- 2.37 It is proposed therefore that Members should make a decision on a recommendation to make to the Fire Authority concerning the level of Council Tax for 2015/2016 but in the knowledge that the Chief Fire Officer and his team will need to bring back to the Authority, proposals to deal with the issues that will arise in 2016/2017 and beyond.
- 2.38 These proposals will need to form part of the thinking behind the current IRMP process in order to ensure that proper consultations take place with stakeholders.

3. FINANCIAL IMPLICATIONS

The financial implications are set out in full in the body of the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are many human resources implications within the underlying savings relating to restructuring proposals.

5. EQUALITIES IMPLICATIONS

An Equality Impact Assessment (EIA) has not been undertaken because this report relates to a series of recommendations which will be consulted upon. It is anticipated that a full EIA will be carried out on the report that goes to the Fire Authority in February 2014.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

The Authority must set a balanced budget for 2014/2015 but may acknowledge potential budget shortfalls for future years.

8. RISK MANAGEMENT IMPLICATIONS

- 8.1 Risks associated with budget setting are always significant. Budgets are by their very nature estimates of future activity and these estimates can sometimes be incorrect. Changes involving contraction of activities may not be made on the envisaged timescales, public consultation may vary policy and external issues such as national pay awards may not align with the assumptions.
- 8.2 Council tax base figures used for this report are only estimates at present and the grant settlement details are only provisional. It is possible that both or either of these could change.
- 8.3 There can be no control over external issues however the Authority has sufficient reserves to cope with any in year changes which alter these budget assumptions significantly.

9. RECOMMENDATIONS

It is recommended that:

- 9.1 Members use the above paper as a basis for making recommendations to the Fire Authority in respect of:-
 - Capital and Revenue budgets for 2015/2016;
 - Outline Capital and Revenue Budgets for 2016/2017 and 2017/2018;
 - Which of the four options for funding the Fire Authority should adopt.

9.2 Members request the Chief Fire Officer prepare a range of options which can be consulted upon to bring budgets into balance for 2016/2017 and 2017/2018. These options to be included within a future report to the full Fire Authority.

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

None.

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