



**NOTTINGHAMSHIRE**

**Fire & Rescue Service**

*Creating Safer Communities*

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

# **BUDGET PROPOSALS FOR 2014/2015 TO 2016/2017 AND OPTIONS FOR COUNCIL TAX**

Report of the Chief Fire Officer

**Agenda Item No:**

**Date:** 17 January 2014

**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 2014/2015 and for 2015/2016 which gives some certainty to budget planning those years. It is difficult to plan with any precision for later years. However, estimates have been made given the best information that is available at present.

## 2. REPORT

### Capital Budget proposals 2014/2015 to 2016/2017

- 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.

The proposed Capital Programme for 2014/2015 to 2016/17 is as follows:

|                                 | 2014/2015<br>£000's | 2015/2016<br>£000's | 2016/2017<br>£000's |
|---------------------------------|---------------------|---------------------|---------------------|
| <b>Transport</b>                |                     |                     |                     |
| Rescue Pump Replacement         | 910,020             | 619,970             | 1,265,500           |
| Vehicles Equipment              | 36,405              | 24,270              | 48,540              |
| Light Vehicles                  | 137,500             | 289,885             | 436,448             |
| <b>Total Transport</b>          | <b>1,083,925</b>    | <b>934,125</b>      | <b>1,750,488</b>    |
|                                 |                     |                     |                     |
| <b>Equipment</b>                |                     |                     |                     |
| Replacement Cutting Equipment   | 0                   | 800,000             | 0                   |
| Replacement Breathing Apparatus | 0                   | 0                   | 300,000             |
| Radio Replacements              | 250,000             | 0                   | 0                   |
| <b>Total Equipment</b>          | <b>250,000</b>      | <b>800,000</b>      | <b>300,000</b>      |

|   | 2014/2015<br>£000's | 2015/2016<br>£000's | 2016/2017<br>£000's |
|---|---------------------|---------------------|---------------------|
| <b>Property</b>                                       |                     |                     |                     |
| Rebuild, Refurb                                       | 2,310,000           | 2,315,500           | 2,315,500           |
| <b>Total Property</b>                                 | <b>2,310,000</b>    | <b>2,315,500</b>    | <b>2,315,500</b>    |
|   |                     |                     |                     |
| <b>Information Technology</b>                         |                     |                     |                     |
| Business Continuity and Disaster Recovery             | 30,000              | 30,000              | 30,000              |
| Mobile Computing                                      | 0                   | 0                   | 0                   |
| Business Expansion                                    | 25,000              | 25,000              | 25,000              |
| Replacement Equipment                                 | 85,000              | 85,000              | 85,000              |
| Business Process Automation                           | 0                   | 0                   | 0                   |
| Microsoft Software Licences                           | 200,000             | 0                   | 0                   |
| Telephone System PABX Replacement                     | 250,000             | 0                   | 0                   |
| Storage Area Network and Back up solution Replacement | 100,000             | 0                   | 0                   |
| <b>Total Information Technology</b>                   | <b>690,000</b>      | <b>140,000</b>      | <b>140,000</b>      |
|   |                     |                     |                     |
| <b>Finance</b>  |                     |                     |                     |
| Agresso Upgrade                                       | 0                   | 70,000              | 0                   |
| New Payroll System                                    | 30,000              | 40,000              | 0                   |
| <b>Total Finance</b>                                  | <b>30,000</b>       | <b>110,000</b>      |                     |
|   |                     |                     |                     |
| <b>Total Programme</b>                                | <b>4,363,925</b>    | <b>4,299,625</b>    | <b>4,505,988</b>    |

- 2.2 Rescue pump renewals follow the usual practice of replacing four pumping appliances each year on a rolling basis to ensure that no appliance older than 12 years is in the fleet. The usual requirement would be for this budget to be over £1m in each year however the reduction in pumping appliances which has taken place over the past year or so is beginning to reflect in the replacement programme. The equipment budget reflects the equipment carried almost as part of the vehicle such as ladders, hose reels and pumps.
- 2.3 There is no proposal within this programme to extend or replace any vehicles in the special fleet however the light vehicle fleet which encompasses all non-HGV type vehicles from pool cars to station vans is showing some acceleration over the three year period. This is as a result of a detailed review that was carried out in 2011/2012 and follows the general cyclical nature of this replacement programme rather than any notable increase in the size of the fleet.

- 2.4 The cutting equipment currently in use will have been in service for about 10 years by 2015/2016. Whilst spares are anticipated to still be available there remains an issue of technical obsolescence which will need to be considered. This budget provides for the possibility of this equipment being replaced although this is by no means certain at this time.
- 2.5 Breathing apparatus remains a key piece of equipment for the emergency response and the equipment currently used has been in service for many years. There are various initiatives and technological advances in the field of respiratory protection which may require enhancements such as telemetry to be introduced. This budget will enable research to begin which will result in procurement in 2016/2017.
- 2.6 The replacement of radios proposal relates to the intrinsically safe radios that are used on the incident ground. Current sets have been in use for many years and are becoming technically obsolete and difficult to maintain. This equipment is again important for both operational efficiency and fire-fighter safety.
- 2.7 It has been suggested to regional partners that these procurements might be best achieved in partnership to bring about a gradual harmonisation of equipment across the region.
- 2.8 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.
- 2.9 The ICT programme covers a number of replacement items and provision for the general expansion of ICT usage across the organisation. There are however three larger items which require some further explanation.
- 2.10 Although included here as a capital item it is debateable whether the purchase of Microsoft enterprise licensing is a capital or revenue purchase. It certainly could be regarded as either but it is likely that this would be funded from revenue contributions, which makes any distinction somewhat academic. It is always difficult in any business to ensure that all of the proprietary software applications in use are properly licensed as these are generally purchased on a machine-by-machine basis. Machines, however, are repaired, modified, passed on and replaced and it becomes increasingly difficult to keep track of individual applications. The movement to the latest versions of this software creates an opportunity to do this differently and purchase an enterprise wide licence which will cover all of the products used within Nottinghamshire Fire & Rescue Service (NFRS). Initial estimates show that this will probably be

cheaper than trying to upgrade individual licences and also has the advantage that there will no longer be any requirement to keep track of individual usage.

- 2.11 The telephone system at headquarters requires replacement. It is currently serviceable but it is important that it remains so as it provides the main means of contact from the public for both emergency and non-emergency calls. The current unit is beyond upgrading and requires complete replacement which hopefully will enable NFRS to move towards more modern (and considerably cheaper) methods of communication such as VOIP (voice over the internet).
- 2.12 The existing NFRS Storage Area Network (SAN) solution is ageing; the hardware technology dates back to November 2007 and the third-party software application that controls the replication have proved to be unreliable. In parallel, the NFRS backup solution is unreliable and vendor support is poor with unrealistic fix times. The main backup server again dates from around 2007 and although that runs the latest version of the software, the system requires a lot of technical intervention by ICT to keep the system running. This creates a significant risk exposure which needs to be managed by the purchase of new facilities.
- 2.13 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 or 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.
- 2.14 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.

## Revenue Budgets 2014/2015 to 2016/2017

- 2.15 The Authority had been faced with significant budget reduction targets over recent years and the forthcoming years 2014/2015 to 2016/2017 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 non-pay 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 resulted in base budget reductions of over £600,000.
- 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 As part of this plan the Authority, at its meeting in February 2013, set outline budgets for 2014/2015 and 2015/2016. 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 £1.4m was predicted for 2014/2015 which needed to be resolved in the 2014/2015 budgeting process.
- 2.19 The predicted budget requirement for 2014/2015 was £44,272,309 and the following table focusses on the changes to that figure to get as close to the available funding as possible.

|   | 2014/2015<br>£m | 2015/2016<br>£m | 2016/2017<br>£m |
|---|-----------------|-----------------|-----------------|
| <b>Requirement Identified in 2012/2013 budget</b> | <b>44,272</b>   | <b>43,038</b>   | <b>43,224</b>   |
| <b>Changes in 2014/15 process</b>                 |                 |                 |                 |
| Corrections and adjustments                       | 54              | -6              | 0               |
| Changed Requirements                              | 2               | -8              | 3               |
| Budget Growth                                     | 675             | 147             | 34              |
| Inflation (including pay)                         | 201             | 428             | 435             |
| Pay Increments                                    | 82              | 69              | 42              |
| Adjustments to Contingency                        | -235            | 38              | -14             |
| Effect of previous decisions                      | 13              | 10              | 12              |

|                                     | 2014/2015<br>£m | 2015/2016<br>£m | 2016/2017<br>£m |
|-------------------------------------|-----------------|-----------------|-----------------|
| Revenue Impact of Capital Financing | -64             | 216             | 128             |
| Targeted Savings                    | -1,966          | -603            | -15             |
| Use of Reserves                     | -65             | 0               | 0               |
| Single Year Requirements            | 69              | -105            | -30             |
|                                     |                 |                 |                 |
| Total Changes                       | -1,234          | 186             | 595             |
|                                     |                 |                 |                 |
| Budget Requirement                  | 43,038          | 43,224          | 43,819          |

- 2.20 The corrections and adjustments figures relate to the recalculation of previous budget estimates in the light of better information being available since these estimates were made in early 2012 or where items should have been included in the estimates but were excluded in error.
- 2.21 The changed requirements heading reflects items that were included in the budget but where the basis for the inclusion has now changed. There are eight single items in this heading, all under £10,000 and a mixture of both reductions and increases.
- 2.22 Growth is clearly an area in which Members will be interested as this represents areas of the budget which are increasing beyond the 2013 estimates. These areas are therefore set out in detail in the table below:

| <b>Additional Requirements</b>          |                                 |                                 |                                 |   |
|---|---------------------------------|---------------------------------|---------------------------------|---|
| <b>Heading</b>                          | <b>2014<br/>2015<br/>£000's</b> | <b>2015<br/>2016<br/>£000's</b> | <b>2016<br/>2017<br/>£000's</b> | <b>Reason</b>   |
| Transport Maintenance                   | 4                               | 3                               | 2                               | Agreed contract increases                                   |
| Bring Budget into line with expenditure | 49                              | 0                               | 0                               | Where actual performance shows that budgets are wrong       |
| Insurances                              | 17                              | 0                               | 0                               | General Inflation   |
| Double Counted Budget Savings           | -8                              | 0                               | 0                               | An item identified at review which had already been deleted |
| Consultancy fees                        | 0                               | 5                               | 0                               | HR Retenders – specialist advice                            |
| Reduction in External Funding           | 26                              | 0                               | 0                               | Withdrawal of partners in provision of I.R Officer          |
| Trading Company                         | -6                              | 0                               | 0                               | Increased charges   |
| Ill Health Retirement                   | 0                               | 0                               | 21                              | Small increase in expectations                              |
| CPD entitlements                        | 27                              | 0                               | 0                               | Staff qualifying for CPD increasing                         |

| <b>Additional Requirements</b>          | <b>Additional Requirements</b> | <b>Additional Requirements</b> | <b>Additional Requirements</b> | <b>Additional Requirements</b>                       |
|---|--------------------------------|--------------------------------|--------------------------------|--|
| Additional Bank Holiday                 | 19                             | 63                             | -126                           | Coping with variations in the dates of Bank holidays |
| Increase in LGPS contributions          | 0                              | 56                             | 1                              | Increase following actuarial valuation               |
| Job Evaluation                          | 20                             | 20                             | 20                             | Contingency sum to provide for JE increases.         |
| Increased NI rates                      | 0                              | 0                              | 116                            | Removal of contracted out status                     |
| NI on overtime                          | 90                             | 0                              | 0                              | Higher rate NI payable                               |
| New AM Rota                             | 30                             | 0                              | 0                              | increased availability enhancement                   |
| Base shortfall on pension contributions | 36                             | 0                              | 0                              | Recalculation of Superannuation contributions        |
| Prince's Trust                          | 85                             | 0                              | 0                              | Sharp reduction in income                            |
| RDS Pension provision                   | 150                            | 0                              | 0                              | Admission of RDS to the Fire-fighters Pension Scheme |
| Service Technician Post                 | 24                             | 0                              | 0                              | Error in 2013/2014 budget. Post not included         |
| Apprentice Scheme                       | 52                             | 0                              | 0                              | Provision for 4 apprentices                          |
| Compartment Fire Training               | 50                             | 0                              | 0                              | Cost of remote training                              |
| Occ Health Assistant                    | 10                             | 0                              | 0                              | Asbestos medical requirement.                        |
| <b>Total</b>                            | <b>675</b>                     | <b>147</b>                     | <b>34</b>                      |  |

2.23 Inflation broadly divides into two areas, the largest of which is pay inflation which has been assumed to run at 1% for each of the following three years. The allocation of inflation is shown in the following table:

| <b>Inflation</b>    |                                 |                                 |                                 |                            |
|---------------------|---------------------------------|---------------------------------|---------------------------------|----------------------------|
| <b>Heading</b>      | <b>2014<br/>2015<br/>£000's</b> | <b>2015<br/>2016<br/>£000's</b> | <b>2016<br/>2017<br/>£000's</b> | <b>Comments</b>            |
| Pay Award Provision | 335                             | 308                             | 299                             | Pay award assumption of 1% |



| <b>Inflation</b>                           |                                 |                                 |                                 |                              |
|--|---------------------------------|---------------------------------|---------------------------------|------------------------------|
| <b>Heading</b>                             | <b>2014<br/>2015<br/>£000's</b> | <b>2015<br/>2016<br/>£000's</b> | <b>2016<br/>2017<br/>£000's</b> | <b>Comments</b>              |
| Pensions                                   | 0                               | 60                              | 16                              |                              |
| Premises Costs                             | 6                               | 34                              | 46                              |                              |
| Fuel                                       | 0                               | 0                               | 35                              | Budget sufficient until 2016 |
| Other Non-pay                              | 23                              | 27                              | 40                              |                              |
| Increased charges to Trading Company       | -1                              | -1                              | -1                              |                              |
| Other Income                               | -1                              | 0                               | 0                               |                              |
| Reversal of previous inflation assumptions | -161                            | 0                               | 0                               | Over provision in 2013/2014  |
|  |                                 |                                 |                                 |                              |
| <b>Total</b>                               | <b>201</b>                      | <b>428</b>                      | <b>435</b>                      |                              |

- 2.24 Pay increments are contractual increases in pay as a result of staff moving up the pay scales annually. This is a particular issue due to the increasing amount of turnover which is initially bringing in new staff on lower incremental points.
- 2.25 Adjustments to contingency reflect the changes to the general contingency which has been reassessed in the light of experience.
- 2.26 The effects of previous decisions largely relates to a series of low value adjustments to take account of decisions such as paying for a Council Tax leaflet, increasing the number of Princes Trust teams etc.
- 2.27 The Revenue Impact of Capital Financing is the actual cost charged to the Revenue Account of both Minimum Revenue Provision and interest charges. Decisions to finance some capital from grant and/or revenue have created a saving in this budget during 2014/2015 but this returns to expected levels in subsequent years. These figures could themselves change if grant bids are successful.
- 2.28 The figures for targeted savings break down in the following table:

| <b>Budget Savings</b>                         |                        |                        |                        |
|---|------------------------|------------------------|------------------------|
| <b>Heading</b>                                | <b>2014/2015<br/>£</b> | <b>2015/2016<br/>£</b> | <b>2016/2017<br/>£</b> |
| NFRS property used instead of external venues | -12                    | 0                      | 0                      |
| Procurement Savings                           | -8                     | -8                     | -10                    |
| Budget Holder Initiatives                     | -26                    | -11                    | 0                      |

| <b>Budget Savings</b>                       |                        |                        |                        |
|---|------------------------|------------------------|------------------------|
| <b>Heading</b>                              | <b>2014/2015<br/>£</b> | <b>2015/2016<br/>£</b> | <b>2016/2017<br/>£</b> |
| Base Budget Review                          | -557                   | 0                      | 0                      |
| Align Budgets with actuals                  | -99                    | -7                     | 0                      |
| Station Based Catering Agreement            | -4                     | 0                      | 0                      |
| Reduction in casual mileage rates           | -19                    | 0                      | 0                      |
| Fire Report Charges                         | -4                     | 0                      | 0                      |
| External Funding                            | -56                    | 0                      | 0                      |
| Closure of Arnold RDS                       | -93                    | 0                      | 0                      |
| Change in Bank Holidays                     | 0                      | 0                      | -6                     |
| Review of subsistence                       | -7                     | 0                      | 0                      |
| Voluntary Redundancies (Phase 2)            | -107                   | -135                   | 0                      |
| Control Budgets                             | -8                     | 0                      | 0                      |
| 2 <sup>nd</sup> Pump at West Bridgford      | -379                   | 0                      | 0                      |
| Movements from 1992 to 2006 Pension schemes | 0                      | -3                     | 0                      |
| Enhanced Crewing                            | 0                      | -303                   | 0                      |
| Trading Company Dividend                    | -15                    | 0                      | 0                      |
| Reduce Wholtime Pay Contingency             | -148                   | 0                      | 0                      |
| Reductions in RDS pay budget                | -200                   | 0                      | 0                      |
| Deletions of vacant posts                   | -121                   | 0                      | 0                      |
| Vacancy Rate – Wholtime 4 posts             | 0                      | -136                   | 0                      |
| New Section 31 Grant                        | -103                   | 0                      | 0                      |
|   |                        |                        |                        |
| <b>Total</b>                                | <b>-1966</b>           | <b>-603</b>            | <b>-16</b>             |

2.29 The figure for the use of reserves reflects the, as yet, unresolved shortfall in the 2013/2014 revenue budget which will be dealt with as part of this process.

2.30 Single year requirements usually relate to issues such as replacement equipment which constitutes £50k of this figure. These items usually reverse out in subsequent years hence the credits in 2015/2016 and 2016/2017.

### **Financing the Budget**

2.31 The Authority primarily receives income from Revenue Support Grant, Business Rates and Council Tax. The government announced the provisional settlement on 18 December 2013 and this is being used for planning purposes as the final settlement is not expected until the end of January 2014. Experience shows that there is likely to be little change from the provisional figures.

2.32 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 when 2% inflation is added.

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

This again is unknown until 31 January 2014 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 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.

2.33 As ever the government have only announced provisional figures for 2014/2015 and 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.

|  | <b>2014/2015</b>  | <b>2015/2016</b>  | <b>2016/2017</b>  |
|--|-------------------|-------------------|-------------------|
|  | <b>£</b>          | <b>£</b>          | <b>£</b>          |
| Revenue Support Grant                      | 11,905,862        | 9,817,083         |                   |
| Business Rates Assumption                  | 3,068,060         | 3,152,740         |                   |
| Top Up Grant                               | 6,355,632         | 6,531,053         |                   |
| Council Tax Freeze Grant<br>Previous years | 577,222           | 577,029           |                   |
| Freeze Grant 2013/2014                     | 235,811           | 235,811           |                   |
| Adjustment                                 | 25,470            | 0                 |                   |
| <b>Total Grant Yield</b>                   | <b>22,168,057</b> | <b>20,313,716</b> | <b>19,482,735</b> |

2.34 In the Autumn Statement the Chancellor of the Exchequer announced that increases in Business Rates were to be capped at 2% instead of following the statutory position of increasing by RPI. The Secretary of State has since

announced that Local Government will be given a Section 31 grant. This grant has been taken into account in the calculation of the budget requirement.

- 2.35 The Secretary of State has also announced that Council Tax Freeze grant will be available in 2014/2015 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.

|                                   | <b>2014/2015</b><br><b>£</b> | <b>2015/2016</b><br><b>£</b> | <b>2016/2017</b><br><b>£</b> |
|-----------------------------------|------------------------------|------------------------------|------------------------------|
| Total Grant Yield                 | 22,168,057                   | 20,313,716                   | 19,482,735                   |
| Budget Requirement                | 43,038,368                   | 43,224,054                   | 43,819,439                   |
| Balance to be met locally         | 20,870,311                   | 22,910,338                   | 24,336,704                   |
|                                   |                              |                              |                              |
| Council Tax Yield*                | 20,120,608                   | 20,321,814                   | 20,525,032                   |
|                                   |                              |                              |                              |
| <b>Budget Shortfall</b>           | <b>749,703</b>               | <b>2,588,524</b>             | <b>3,811,672</b>             |
| <b>Deficit</b>                    |                              |                              |                              |
|                                   |                              |                              |                              |
| Council Tax Freeze Grant          | 237,000                      | 237,000                      | 237,000                      |
|                                   |                              |                              |                              |
| <b>Remaining Budget Shortfall</b> | <b>512,703</b>               | <b>2,351,524</b>             | <b>3,574,672</b>             |

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

- 2.36 In earlier statements the government had stated that any authority wishing to increase Council Tax by more than 2% 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 2014/2015. There has been no announcement regarding limits for 2015/2016 or 2016/2017 and so the assumption being made is that would be the same. There has also been no announcement regarding possible freeze grants in 2015/2016 or 2016/2017 and therefore no assumptions have been made.
- 2.37 In last year's budget process the situation in 2015/2016 whilst largely unknown was predicted to be serious in terms of shortfalls and actions required to address the issue. The position for 2014/2015 remains difficult although it will be possible to fund the shortfall with balances due to budget plans in 2015/2016 being enough to address the fundamental problems. The task facing this committee is whether to recommend an increase in the level of Band D Council Tax or to recommend the acceptance of the council tax freeze grant.
- 2.38 A further complication has arisen however in respect of the referendum limit in that within the supporting papers to the settlement the Minister did not rule out

lowering this from the previously announced level of 2%. This will not be announced until January 2014.

- 2.39 For the purposes of this paper however the assumption has to remain that the referendum limit will be 2% and therefore the only realistic option for raising council tax is 1.95%. The reason that 2% is not selected is that there are various technical adjustments that are made that can cause a 2% rise to actually register as something slightly greater and therefore trigger a referendum.
- 2.40 A simple replication of the above table but assuming a 1.95% rise in council Tax in each year is as follows:

|                           | <b>2014/2015</b><br><b>£</b> | <b>2015/2016</b><br><b>£</b> | <b>2016/2017</b><br><b>£</b> |
|---------------------------|------------------------------|------------------------------|------------------------------|
| Total Grant Yield         | 22,168,057                   | 20,313,716                   | 19,482,735                   |
| Budget Requirement        | 43,038,368                   | 43,224,054                   | 43,819,439                   |
| Balance to be met locally | 20,870,311                   | 22,910,338                   | 24,336,704                   |
|                           |                              |                              |                              |
| Council Tax Yield *       | 20,513,262                   | 21,123,723                   | 21,750,232                   |
|                           |                              |                              |                              |
| <b>Budget Shortfall</b>   | <b>357,049</b>               | <b>1,786,615</b>             | <b>2,586,472</b>             |
|                           |                              |                              |                              |
| <b>Band D Council Tax</b> | <b>71.05</b>                 | <b>72.44</b>                 | <b>73.85</b>                 |
|                           |                              |                              |                              |
| <b>Rise Per annum</b>     | <b>1.36</b>                  | <b>1.39</b>                  | <b>1.41</b>                  |

- 2.41 This relatively small rise, costing less than 3p per week, can make a significant difference to the financial position of the service but it will still mean that some significant budget reductions and changes to service delivery will be required in 2015/2016.
- 2.42 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.

#### **Potential Effect on Balances**

- 2.43 Both options for Council Tax increases will have some effect on balances and there remains an opportunity for balances to be used to mitigate the short term effects of budget shortfalls. The Authority currently enjoys a substantial level of balances generated in part by the early implementation of budget reductions by management.

2.44 The following table shows the effect on balances of each of the options

|                             | Freeze Grant and 0% |               |               | 1.95% no freeze grant |               |               |
|-----------------------------|---------------------|---------------|---------------|-----------------------|---------------|---------------|
|                             | 2014/<br>2015       | 2015/<br>2016 | 2016/<br>2017 | 2014/<br>2015         | 2015/<br>2016 | 2016/<br>2017 |
| Total Funding               | 42,525              | 40,872        | 40,244        | 42,681                | 41,438        | 41,233        |
| Budget Requirement          | 43,038              | 43,224        | 43,819        | 43,038                | 43,224        | 43,819        |
| Surplus                     | 0                   | 0             | 0             | 0                     | 0             | 0             |
| Deficit                     | 513                 | 2,352         | 3,575         | 357                   | 1,786         | 2,586         |
|                             |                     |               |               |                       |               |               |
| Opening Balance             | 7,764               | 7,186         | 4,769         | 7,764                 | 7,342         | 5,491         |
| Contributions from balances | 513                 | 2,352         | 3575          | 357                   | 1,786         | 2,586         |
| Ongoing contribution        | 65                  | 65            | 65            | 65                    | 65            | 65            |
| Closing Balance             | 7,186               | 4,769         | 1.194         | 7,342                 | 5,491         | 2,840         |

2.45 As reported previously to Members it is important to consider that balances can only ever provide a short term solution to budget problems as underlying shortfalls within the base budget will ultimately require permanent solutions. Unlike previous years there are no options which result in balances increasing. In fact both options would take balances below those required according to the risk assessment. The difference however is that the option of raising council tax would keep balance £1.6m higher than the freeze grant option.

2.46 The above table demonstrates that it is possible to deal with the budget shortfall in 2014/2015 by using balances to cushion the effect of future budget reductions. However the underlying problem with the base is beginning to escalate to levels which cannot be contained by balances and so action will be required.

### **Budget Options**

2.47 The gravity of the decisions required to solve the emergent problems for 2015/2016 and 2016/2017 will be beyond the scope of this Committee with the limited intelligence that is available with regard to risk options and budget options. The decision required at this time is whether to opt to raise Council Tax by up to 1.95% or whether to take the grant that is on offer and not raise Council Tax in 2014/2015.

- 2.48 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 2014/2015 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 2015/2016 and beyond.
- 2.49 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 2014/2015;
  - outline Capital and Revenue Budgets for 2015/2016 and 2016/2017;
  - whether the Authority should accept the freeze grant being offered for 2014/2015;
  - whether there should be an increase in Council Tax for 2014/2015 and the level of such increase.
- 9.2 Members request the Chief Fire Officer prepare a range of options which can be consulted upon to bring budgets into balance for 2015/2016 and 2016/2017. These options to be included within the budget report to the full Fire Authority in February.

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

None.

Frank Swann  
**CHIEF FIRE OFFICER**