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Meeting: **Combined Fire Authority**

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Subject: **Budget Strategy 2016/17 to 2019/20**

Report by: **Chief Fire and Rescue Officer and Treasurer**

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For: **Decision**

1. Purpose

1.1 The purpose of this report is to seek the authority's approval to the proposed budget and capital programme for 2016/17, and the proposed budget strategy for 2016/17 to 2019/20.

2. Summary

2.1 Local government is in the middle of a period of severe financial cutbacks, and fire authorities are no exception.

2.2 A report by the National Audit Office in November 2015 reveals that grant funding for standalone fire authorities (such as Leicester, Leicestershire and Rutland) fell by 28% on average in the 5 years to 2015/16. Once council tax and other income is taken into account, income has fallen by an average 17% in real terms.

2.3 The impact can also be seen locally. Since 2013/14, when the current system of local government finance was introduced, total government grant has fallen by £3.2m (18%) in just 2 years. Projections are that a further £3.5m will be cut by 2019/20, which amounts to 38% of grant support since 2013/14.

2.4 In response, the fire authority has approved substantial spending reductions. These amount to £9m since 2010/11, of which £6m were approved in 2015/16.

2.5 Whilst severe, future reductions in grant will be less than anticipated when the authority last considered the medium term plan in September. This is because fire authorities have been partially protected at the expense of other local authority services.

2.6 As a result, savings over and above those approved in 2015/16 will be much less significant. There must, however, remain a risk that the recent change of national responsibility from the Department for Communities and Local Government (DCLG) to the Home Office will result in further changes to funding.

2.7 The budget is accompanied on your agenda by a separate report, proposing changes to the operational fire and rescue infrastructure (the Integrated Risk Management Plan, or IRMP). Draft IRMP proposals have been the subject of substantial public consultation during the second half of 2015.

2.8 The draft IRMP has been amended, both as a consequence of consultation and of the changed financial circumstances. It does, however, propose various changes to reflect the latest assessment of community risk. These changes principally affect the acquisition of new firefighting equipment, and make a small increase in whole time firefighting capacity (with a compensating reduction in retained capacity).

2.9 The budget strategy you are being asked to approve is essentially the budget approved previously, except that:-

(a) Some savings previously adopted are no longer proposed (the majority of which affect operational firefighting);

(b) Additional savings are proposed in lieu, the majority of which arise from the back office, with reviews of the buildings estate, management structure and vehicle fleet to be undertaken.

2.10 The revised IRMP results in small additional savings of £0.3m per year by 2019/20.

2.11 A four year capital programme is also proposed in this report. In order to avoid taking on new debt (and consequent future revenue costs) it is proposed to create a fund, with money from the revenue budget, to pay for capital expenditure. The amount set aside each year depends on annual affordability.

2.12 The budget, if approved, will not require any compulsory redundancies amongst firefighters.

2.13 The report proposes a council tax of £61.62, an increase of just below 2% on the tax for 2015/16.

2.14 In the exercise of its functions, the authority must have due regard to its duty to eliminate discrimination, advance equality of opportunity for protected groups, and foster good relations between protected groups and others. The only proposals in the budget which could have an impact on protected groups of service users are:

(a) Those contained within the IRMP, which has been the subject of its own equality impact assessment;

(b) The proposed council tax increase, which is assessed in this report.

3. Recommendations

3.1 The authority is asked to:-

(a) Approve the budget strategy described in this report, and the formal (technical) budget resolution for 2016/17 which will be circulated separately;

(b) Note that in approving the budget, the Authority is endorsing the financial implications of the IRMP. This is a package consisting of:-

- a target establishment of 334 firefighters, being 2 more than would otherwise be the case;
- a reduction of 40% in the cost of retained firefighting capacity at four fire stations, to be achieved by natural turnover;
- a reduction in the requirement for traditional firefighting appliances (by four) and an increase in tactical response vehicles (by five);
- no reduction in fire stations;

(c) Endorse the approach to maximising savings described in the report, being:-

- improving the efficiency of support services;
- maximising opportunities presented through the provision of support from the City and County Councils, and collaboration with other blue light services;
- a full review of the cost of the buildings estate, including the use of operational fire stations and the Birstall HQ;
- review of management structure;
- review of the total vehicle fleet, including appliances and light vehicles, the purpose for which they are used by staff, and the frequency with which vehicles are changed;
- the reviews in respect of the buildings estate, management structure and vehicle fleet be undertaken independently from the Fire and Rescue Service and commissioned in consultation with the Chairman and Vice-Chairman of the Authority and their approval.

(d) Note the outcome of the local government finance settlement for 2016/17;

(e) Note any comments received on the draft budget;

(f) Note my view that reserves are adequate during 2016/17, and that estimates used to prepare the budget are robust;

(g) Note the equality implications arising from the budget, as described in paragraph 18;

(h) Approve the prudential indicators described in paragraph 16 of this report, and Appendix Three;

(i) Approve the proposed policy on minimum revenue provision described in paragraph 17 of this report and Appendix Four;

(j) Approve the scheme of virement described at Appendix Five to this report.

4. **Budget Overview**

4.1 The table below summarises the proposed budget, and shows the forecast position for the next three years:-

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Spending				
Current approved budget	32.8	33.0	32.7	32.2
Add savings no longer proposed	1.3	1.3	1.3	1.3
Technical Changes:-				
Inflation	0.6	1.0	1.3	1.7
Capital Financing Savings	(0.2)	(0.2)	(0.4)	(0.6)
Real Changes:-				
Shared Services & Accommodation	(0.2)	(0.2)	(0.5)	(0.6)
Other Savings	(0.2)	(0.2)	(0.2)	(0.2)
Prince's Trust	(0.5)	(0.5)	(0.5)	(0.5)
Impact of IRMP			(0.1)	(0.3)
Contribution to capital	2.3	0.8	1.1	1.8
Planning Provision	0	0.3	0.6	0.9
Forecast Spending	**36.0**	**35.3**	**35.4**	**35.8**
Local Resources				
Council Tax	18.7	19.3	19.9	20.6
Business Rates	3.4	3.5	3.6	3.7
Fire Authority Income	0.4	0.4	0.4	0.4
Collection Fund Surplus	0.0			
Government Grant				
Revenue Support Grant	7.2	5.6	4.8	4.3
Top Up Grant	4.9	5.0	5.2	5.4
Other Grants	1.4	1.4	1.4	1.5
TOTAL RESOURCES	**36.0**	**35.3**	**35.4**	**35.8**

4.2 A more detailed breakdown of the budget is provided at Appendix One to this report.

4.3 The above table includes the budget for 2016/17, and projected expenditure and income in future years. These forecasts are volatile, and will inevitably change, particularly in the later years. The forecasts are subject to the risks and caveats described in section 14 below.

5. **Council Tax**

5.1 The authority's proposed tax 2016/17 is £61.62, an increase of just below 2% on 2015/16. The tax will remain in the lower quartile of combined fire authorities nationally.

5.2 The authority's tax is charged to taxpayers across Leicester, Leicestershire and Rutland. It comprises only a small part of the amount payable by taxpayers: the bulk of the tax payable is charged by Leicestershire County Council, Leicester City Council and Rutland County Council in the three areas respectively.

5.3 In 2015/16, average Band D taxes in the three areas were:-

	£
Leicester City	1,542
Leicestershire County	1,480 - 1,552
Rutland	1,710

5.4 The actual amounts people pay, however, depend on the valuation band their property is in, and their entitlement to any discounts, exemptions or benefits. The formal resolution to this report shows the amount payable for property in each band. It also shows the precepts payable by the tax collecting authorities (the "billing authorities") which will arise from this budget.

6. **Construction of the Budget**

6.1 The first stage of constructing the budget is to establish the standstill budget for 2016/17. This is the budget as it would be if previous policy were simply rolled forward, and no further decisions taken.

6.2 In the past, the budget has been calculated on two bases:-

(a) A notional basis, reflecting the approved establishment as changed from time to time by decisions of the authority;

(b) An actual basis, reflecting the fact that the authority has always sought to avoid compulsory redundancy of whole time firefighters.

6.3 This budget has been prepared solely on an actual basis, and reflects the costs of operational staffing on the (prudent) assumption that:-

(a) Firefighters will retire as soon as they are entitled to receive full pension;

(b) Firefighters who have been seconded to other authorities (to save money) will return at the end of their secondment;

(c) There are no other departures;

(d) No external recruitment takes place.

6.4 In practice, this means that the 2015/16 budget has been restated. Most previously approved changes to operational firefighting arrangements are now recognised in the budget only at the time staff reductions enable them to be put into effect (which matches underlying operational reality).

6.5 It is believed that this presentation will aid understanding.

6.6 After restating the 2015/16 budget, changes have been made to create the new budget for 2016/17, and to provide forecasts for the following years.

6.7 The following reductions were anticipated in the 2015/16 budget and are no longer considered achievable. They have been removed from the budget and the forecasts:-

(a) An assumed saving of £854,000 per year from the introduction of operational pooling. This proposal would have changed the current "watch" system of crewing, whereby firefighters are allocated to individual appliances, and replace it with a rota system enabling firefighters to use any available vehicle. This proposal would require formal negotiation and is unlikely to have secured support;

(b) The proposed merger of fire control rooms with Nottinghamshire Fire Service (£400,000), on which the two authorities were unable to reach agreement. However, efficiencies in the control function can still be achieved, and are discussed at paragraph 7 below;

(c) Two minor savings in respect of telephony costs and payroll costs, which have achieved less than expected.

6.8 Money has been added to the 2015/16 budget for **inflation**. This has been calculated as follows:-

(a) A 1% pay award has been assumed, both for purposes of the 2016/17 budget and for subsequent years' projections. In other words, it is assumed that national negotiating bodies will approve settlements in line with Government guidelines for the public sector;

(b) A sum of £0.5m per year has been added for **National Insurance** increases. These arise from a decision of the Government to introduce a national minimum state pension. Organisations that previously "contracted out" of the State Second Pension Scheme will now have to pay higher national insurance contributions. No money has been provided by the Government to meet the costs of this decision;

(c) **Price inflation** has been added to only a limited number of budgets. Other budgets are therefore required to manage within the level of funding available in 2015/16. Furthermore, reductions have been made to budgets for energy costs reflecting the recent wholesale price reductions;

(d) Money has been added to the budget for the cost of increases in contributions to the **local government pension scheme** in 2016/17, and the expected increases from 2017/18 onwards;

(e) Money has been removed from the budget representing savings from the introduction of the new **firefighters' occupational pension scheme**;

(f) In the Comprehensive Spending Review, the Government announced a new **apprentice levy** equal to 0.5% of payroll, effective from 2017/18. The cost of this has been estimated at £93,000 per year, although this remains provisional at present. We do not yet know if any costs the authority incurs on training can be reimbursed from funds raised by the levy: if so, the £93,000 stated can be reduced.

6.9 £0.2m (rising to £0.6m) has been removed from the budget to reflect savings in **capital financing** costs. These occur because less capital money will be spent in 2015/16 than originally envisaged, and because lease rentals cease to be required once vehicles are fully paid for. These figures disregard the impact of the new capital programme which is discussed below.

7. Cost Savings

7.1 The standstill budget has been adjusted for the impact of proposed savings. These are described below.

7.2 The approach taken to the budget has been to maximise savings available from the following:-

(a) Improving the efficiency of support services;

(b) Maximising opportunities presented through the provision of support from the City and County Councils, and collaboration with other blue light services;

(c) A full review of the cost of the buildings estate, including the use of operational fire stations and the Birstall HQ;

(d) Review of management structure;

(e) Review of the vehicle fleet (as discussed below in relation to the capital programme).

7.3 The following savings are proposed:-

(a) Savings of £150,000 per year have been achieved from efficiencies in the control room, through changes to working practices and a subsequent reduction in the overall establishment;

(b) Savings rising to £350,000 per year are proposed by 2019/20, from further savings (in line with the approach described above);

(c) Savings have been achieved from a reduction of two senior manager posts, the provision of treasury management services by the City Council, the provision of legal services by the County Council, and letting of space at the Birstall HQ.

7.4 Additionally, a number of savings have been identified which do not fall within the above approach. These are as follows:-

(a) A reduction of £16,000 per year in contributions to district councils' council tax schemes. This contribution has helped districts (and the City and Rutland) to maintain discretionary support to low income taxpayers, but has been consistently underspent;

(b) Reduction in budgets for training (£100,000 per year), which have also consistently underspent;

(c) Other minor routine underspends (£56,000 per year).

7.5 Until 2015/16, £0.5m per year was received from the **Prince's Trust** to fund programmes to help young people into work. This funding has now ceased, and the budget has been reduced accordingly.

8. <u>Integrated Risk Management Plan</u>

8.1 Any changes to operational capacity are subject to formal consultation, via the IRMP.

8.2 Proposals to modernise and reconfigure the authority's fire and rescue organisation were subject to consultation in the second half of 2015. Following consultation, and in light of the financial outlook being less severe than anticipated, these proposals have been modified. They are fully described in a separate report on your agenda.

8.3 The consequences of the IRMP for fire response are fully described in that report. In financial terms the proposals (if approved) would result in:-

(a) A "target establishment" of 334 firefighters. This is the number at which recruitment would again be required, once departures have reduced the workforce to this level. 334 is two more than would be required if the IRMP is not approved, and can be compared with 305 if the whole of the 2015/16 budget was implemented together with the original consultative IRMP;

(b) A reduction of 40% in the cost of retained firefighting capacity at four fire stations. This will be achieved by natural workforce reduction, not redundancy, and the budget assumes that the full saving of £0.3m per year will not be achieved until 2019/20;

(c) A reduced requirement for traditional firefighting appliances (by four) and a new requirement for five tactical response vehicles. In practical terms, this means that the next fire appliances which reach the end of their useful lives will not be replaced.

8.4 As stated above, the budget is based on the actual cost of staff employed. This is not expected to reach 334 until 2020 on current assumptions, although it would be achieved sooner if workforce reductions take place more quickly than assumed (e.g. if firefighters seconded to other authorities do not return). This scenario seems quite likely.

8.5 The table below shows the estimated number of whole time firefighters at the end of each year:-

2016/17	360
2017/18	364
2018/19	350
2019/20	339

8.6 (The increase in workforce during 2017/18 assumes the return of all secondees).

8.7 The IRMP does not propose any change to the current stock of 20 fire stations.

9. <u>Capital Programme</u>

9.1 Capital expenditure pays for works of lasting benefit. It can be contrasted with the revenue budget, which pays for day to day firefighting and prevention.

9.2 The proposed capital programme consists of:-

(a) Sums for improvement to fire stations;
(b) Sums for acquisition of vehicles and firefighting equipment;

(c) ICT equipment.

9.3 In previous years, capital expenditure has been funded from borrowing or leasing. This spreads the cost of capital over the expected life of the works or vehicles purchased. This budget proposes the use of revenue to pay for capital expenditure outright. The advantage of this is twofold:-

(a) It avoids debt, and consequently reduces future revenue cost;

(b) Should the financial position deteriorate further, subsequent capital programmes can revert to borrowing, thus providing a mechanism to deal with any future required cuts. Thus, the new policy helps mitigate risk.

9.4 The table at paragraph 4.1 shows a contribution from the revenue budget to fund capital expenditure. This amounts to £6m over four years. Together with a proposed contribution of £1.3m from current reserves (see below) this will provide £7.3m for capital expenditure over the next four years. These sums will be added to a newly created capital fund.

9.5 The proposed capital programme is shown at Appendix Two (which assumes approval of the IRMP). Appendix Two also shows how this will be funded from the capital fund.

9.6 In respect of **buildings**, the only project currently required is works to Wigston fire station which are necessary to implement a new system of crewing approved in the 2015/16 budget (and which will generate revenue savings). During 2016/17, condition surveys will be carried out on all fire stations, with a view to preparing a detailed programme of works for later years. Consequently, money is provided for station improvements in three of the four years in the programme, but is simply set aside rather than being based on costed schemes.

9.7 In respect of **vehicles**, provision is made for the replacement of the following vehicles which will reach the end of their useful lives over the next 4 years:-

(a) 16 pumping appliances (at an estimated cost of £250,000 each);

(b) 1 aerial ladder platform (£650,000);

(c) 25 hydraulic cutting units (£25,000 each).

9.8 Additionally, provision is made for 5 new tactical response vehicles, as required by the IRMP, at a cost of £75,000 each.

9.9 Light vehicles have previously been leased, from within an existing revenue budget. To enable these vehicles to be acquired outright, it is proposed to create a separate revenue fund for these vehicles. A £500,000 contribution to pump prime this has been included in the capital programme.

9.10 It is proposed to carry out a full review of the vehicle fleet during 2016 (including appliances and light vehicles), and vehicles will only be replaced if there is a definite operational need.

9.11 £90,000 has been included for ICT telephony equipment.

9.12 It is anticipated that capital receipts of £0.5m will be received over the four year period from the disposal of life expired vehicles. These will offset the programme cost.

10. Planning Provision

10.1 The table at paragraph 4.1 above includes a planning provision in future years. This amounts to £0.3m per year, accumulating by £0.3m per year each year.

10.2 The planning provision is a contingency, which reflects the severe difficulty in making accurate forecasts and acts as a hedge against uncertainty. It is reviewed annually, and will only ever be included in future years' projections (i.e. it is never included in the current year's budget).

11. Resources – Government Grant

11.1 As can be seen from the table at paragraph 4, Government grant is a major component of the Authority's budget. The Authority's grant for 2016/17 was provisionally announced by the Government in their draft finance settlement, on 17th December.

11.2 The system of providing grant support changed in 2013/14, when local government started to keep 50% of business rates; prior to 2013/14, business rates were collected locally but handed over to central Government to redistribute on the basis on need.

11.3 Government grant support now principally consists of:-

(a) **Revenue Support Grant (RSG)**, which is distributed on the basis of needs formulae that existed prior to 2013/14. Cuts in grant since 2013/14, however, have been made without reassessing needs, and have simply been made pro-rata to previous assessments. From 2016/17 onwards, a greater proportion of the national total has been allocated for fire authorities than for authorities generally;

(b) A **top-up to local business rates**. The sums payable were calculated in 2013/14, and now simply increase by inflation each year.

11.4 The Government also provides two additional grants for fire authorities. These are:-

(a) **“New Dimension”**, which funds the provision of national capability, including the Urban Search and Rescue; and the Detection, Identification and Monitoring functions;

(b) **“Firelink”** which funds the multi-agency radio network.

11.5 Finally, grant support is made available to compensate authorities for **loss of rates income** arising from concessions made by the Government to ratepayers (principally a 2% cap on increases and relief for small businesses).

11.6 In addition to grant figures for 2016/17, the Government has provided indicative figures for the subsequent three years. The Government has offered authorities a formal four year settlement, if we want one. It is still unclear what additional certainty this would bring. To receive a four year settlement, we will be required to produce an “efficiency plan”, but it is also unclear what this would need to include.

12. <u>Local Resources</u>

12.1 The table at paragraph 4.1 shows the estimated amount receivable from **council tax** in 2016/17 and the following years. At £18.7m, this is the most substantial element of the resources available to the authority.

12.2 Council tax is set by the fire authority, but charged by the district councils in the county, the City Council and Rutland (the “billing authorities”). An increase of just under 2% is proposed for 2016/17, and is also assumed for planning purposes in subsequent years.

12.3 The tax is charged on properties, and reflects the number of properties advised by the billing authorities. Future projections assume a 1.25% increase each year in the relevant number of properties. This is based on estimates provided by these authorities, moderated in the light of recent experience. The projections reflect expected housing growth in the region.

12.4 Since 2013/14, the authority has been entitled to 1% of the **business rates** raised by the billing authorities. An estimated £3.4m per annum has been included in the budget for 2016/17, increasing in later years in line with forecast inflation.

12.5 The authority also benefits from **collection fund surpluses**, and must contribute to **collection fund deficits**. These arise when collection of local tax for the previous year (i.e. 2015/16) differs from the assumptions originally made by the billing authorities. The key reasons why such surpluses and deficits have arisen in 2016/17 are:-

(a) Council tax surpluses (£0.4m) are due to an increase in the number of properties in the area, and the fact that new council tax reduction schemes have not been as costly as originally envisaged;

(b) Rates deficits (estimated at £0.4m) are due to the impact of a substantial number of appeals against rateable value by businesses.

12.6 Members are asked to note that definitive estimates of rates income (and the collection fund deficit for 2015/16) are not received from district councils until after the budget has been prepared. These figures are not readily predictable, given the volatility associated with the outcome of appeals. Until 2015/16, it was possible to appeal against a rating assessment, and (if successful) receive refunds dating back to 2010 (and in some cases, 2005). In November 2014, the Government announced that backdating would cease for appeals submitted after March 2015. Perhaps inevitably, a substantial number of new appeals were received in March 2015, many prompted by rating agents. Many of these appeals remain unresolved by the Valuation Office Agency. Billing authorities are therefore required to make estimates of success based on very limited information and this has not yet been completed (the statutory deadline to supply this information is January 31st).

13. **Reserves**

13.1 The Authority holds a number of reserves, the total value of which is not high in the context of the volatile financial environment.

13.2 The level of **general reserves** held by the Authority has previously been maintained at £1.8m (5% of the revenue budget) in line with advice from the Chartered Institute of Public Finance and Accountancy. It is proposed to increase these to £3m, given the risks described in paragraph 14 below.

13.3 Two reserves exist to manage change. These are:

(a) The reserve previously used to fund **over-establishment costs** (£2.8m on 01.04.15). Given the new way of constructing the budget, this will no longer be required;

(b) A reserve for **severance costs**, which stood at £1.1m on 01.04.15.

13.4 It is proposed that these reserves are now combined, and seen as a single reserve for the management of change. Before doing so, it is proposed:-

(a) To remove £1.2m to increase the general reserve;

(b) To set aside £1.3m to create the new capital fund described at paragraph 9.

13.5 The amount available to manage future change will thus be:-

	£m	£m
Reserves on 01.04.15		
Former over-establishment reserve	2.8	
Former severance reserve	1.1	3.9
Additions in 15/16		
Forecast underspend on revenue budget	0.8	
Transfers from minor reserves	0.2	1.0
Less		
Redundancy costs in 2015/16		(0.6)
Transfers described above		(2.5)
Available on 01.04.16		1.8

13.6 This funding will be available to support the authority through any future period of change, and is another tool in the management of future risk. In particular, it is anticipated that the reserve is made available for transformation costs that reduce revenue expenditure.

13.7 As described at paragraph 9, the budget creates a new **capital fund**, the purpose of which is to manage peaks and troughs in capital expenditure requirements. The fund will:-

(a) Commence with a balance of £1.3m;

(b) Be topped up annually by sums set aside in the revenue budget, and shown at paragraph 4.1 above;

(c) Reduce when money is spent on capital.

13.8 The forecast balances on the fund are shown at Appendix Two.

13.9 The Authority also has a number of minor reserves. The table below shows the estimated balance on each:-

	£000
Insurance Reserves	382
Emergency Services Mobile Communications Programme - Contingency	150
Ill health retirements	152
Other	129
Total	**813**

14. Risk Assessment and Adequacy of Estimates

14.1 Best practice requires me to identify any risks associated with the budget, and the Local Government Act 2003 requires me to report on the adequacy of reserves and the robustness of estimates. In the current climate, it is inevitable that the budget carries risk.

14.2 In my view, the budget for 2016/17 is achievable.

14.3 The forecast position beyond 2016/17 is very sensitive to change, and small changes can have a significant impact on available finances.

14.4 The most significant risks are:-

(a) The transfer of responsibility for fire nationally from the DCLG to the Home Office. It is not known whether or not this will lead to funding allocations being revisited, or new duties being imposed on fire authorities within the same funding envelope;

(b) The risk associated with council tax projections, particularly the expected growth in property numbers. If property numbers grow by 0.25% instead of the assumed 1.25%, this will cost the authority £0.6m per year by 2019/20;

(c) The risk that national economic downturn will lead to the Government imposing further cuts;

(d) Unexpected decisions by the Government requiring extra funding for pensions.

14.5 These risks are mitigated by:-

(a) An increase in the level of general reserves to £3m;

(b) The inclusion of a planning provision in future forecasts;

(c) New policies to fund capital from the revenue budget wherever possible;

(d) The creation of a new reserve for the management of change.

14.6 I believe the authority's general and earmarked reserves to be adequate for 2016/17, and that estimates made in preparing the budget are robust. Whilst no inflation is provided for the generality of running costs in 2016/17, some exceptions are made, and it is believed that services will be able to manage without an allocation.

15. <u>Consultation on the Draft Budget</u>

15.1 Substantial consultation has taken place in respect of the IRMP, which is described in the separate report on today's agenda.

15.2 Given the nature of the budget, consultation has not taken place with the public on the budget as a whole.

15.3 Business ratepayers and other communities of interest are being consulted on the draft budget, and any comments received will be reported to your meeting.

16. <u>Borrowing</u>

16.1 Local authority capital expenditure is self-regulated, based upon a code of practice (the "prudential code").

16.2 The authority complies with the code of practice, which requires us to demonstrate that any borrowing would be affordable, sustainable and prudent. To comply with the code, the authority must approve a set of indicators at the same time as it agrees the budget. The substance of the code pre-dates the recent huge cutbacks in public spending. In practice, no borrowing is proposed in the budget.

16.3 Attached at Appendix Three are the prudential indicators which would result from the proposed budget.

16.4 In previous years, the authority has also been asked to approve a treasury strategy for the year. However, treasury management will now be carried out by the City Council on the authority's behalf (this has led to efficiency savings included in the budget).

16.5 A new treasury strategy will be prepared, if required, on the conclusion of arrangements with the City Council. In the meantime, the current strategy (approved in February 2015) will continue to be applied. The authority must, however, still approve a limit on total borrowing which is included at Appendix Three. If any interim indicators are required, these will be included in the formal resolution.

17. **Minimum Revenue Provision**

17.1 By law, the authority is required to charge to its budget each year an amount for the repayment of debt. This is known as "Minimum Revenue Provision" (MRP). The proposed policy is shown at Appendix Four.

18. **Equality Implications**

18.1 The Authority is committed to promoting equality of opportunity in service provision, through its operational policies aimed at reducing inequality of outcomes, its practices aimed at ensuring fair treatment for all, and the provision of culturally sensitive response and prevention services that meet local people's needs.

18.2 Since April 2011, in accordance with section 149 of the Equality Act, the Authority has been required by law to "have due regard" to the need to:-

(a) eliminate discrimination;
(b) advance equality of opportunity between protected groups and others;
(c) foster good relations between protected groups and others.

18.3 (This is the public sector equality duty).

18.4 Protected groups under the public sector equality duty are characterised by age, disability, gender re-assignment, pregnancy/maternity, race, religion or belief, sex and sexual orientation.

18.5 Advancing equality of opportunity under our public sector equality duty includes removing and minimising disadvantage, meeting the needs of protected groups which are different to others (particularly the disabled), and encouragement to participate in public life.

18.6 These are two elements to the budget which have a potential impact on protected groups:-

(a) The service changes resulting from the IRMP, for which a full equality assessment has been carried out (and which is reported separately);

(b) The implications of a tax rise on the ability of residents to afford it.

18.7 The impact of the tax rise is 2p per week for a band D property, rising to 5p per week for the highest banded properties in the area (before any discounts or exemptions). This will not create a significant additional burden on residents, and the increase will help maintain services from which all protected groups benefit.

18.8 Additionally, it is noted that more significant items of household expenditure have fallen in price, more than offsetting the proposed increase in tax.

18.9 The supermarket ASDA prepares an annual household income tracker. As of December 2015, this highlights the following trends affecting the average UK household expenditure during the past year:

(a) The price of vehicle fuel has dropped by 14%;

(b) The cost of home electricity and gas fell by 4.1%;

(c) Food and drink prices fell by 2.7%.

18.10 The only area of potential risk is the pressure placed on households who will experience a decline in benefit income, as a result of anticipated changes to Universal Credit payments. Forecasts prepared by various policy think tanks show a significant decrease for some households, despite the introduction of the National Living Wage in April 2016. The households significantly worse off will be:

(a) Low earning couples with three children, where one parent works full time, and the other works part-time, with an anticipated loss of £3,060 in benefits by 2020;

(b) Lone parent households with one child, working part time on the National Living Wage, with an anticipated loss of £2,800 in benefits by 2020 (Resolution Foundation);

18.11 However, a single person with no children, working full time and receiving the National Living Wage will be £1,280 better off in 2020.

18.12 Although there will be a transition period for current benefit claimants, all new Universal Credit claimants will be subject to these reduced rates of benefit after April 2016. Claimants who start work and cease claiming benefits will be exposed to a substantial risk of reduced household income if they become unemployed again.

18.13 Billing authorities have mitigating actions in place to address specific hardship, although cost increases arising from other authorities' contribution to local council tax bills are likely to far exceed the cost of the LRFS' tax increase.

19. <u>Financial Implications</u>

19.1 This report is exclusively concerned with financial issues.

19.2 There are no significant revenue costs arising from the proposed capital programme (apart, of course, from capital financing costs). There will be maintenance and running costs associated with new vehicles, but these are likely to be lower than the costs of vehicles coming out of service.

20. **<u>Legal Implications (Andrew James)</u>**

20.1 As this report deals with next year’s budget, section 106 of the Local Government Finance Act 1992 will apply to members in arrears of council tax. All other legal implications are contained within the main body of the report.

20.2 Compliance with the CIPFA Prudential Code for Capital Finance in Local Authorities is required under Part 1 of the Local Government Act 2003.

Appendix One

Budget 2016/17

	2015/16 £000	2016/17 £000
Expenditure		
Employees	26,783	24,378
Fire pensions administration	252	253
Other employee related expenditure	674	466
Premises	2,175	2,106
Transport	1,239	1,130
Supplies and Services	3,279	3,179
Capital financing	2,722	4,512
Total Expenditure	**37,124**	**36,024**
Income		
Council tax	17,867	18,701
Business rates	3,272	3,405
Collection Fund Surplus/(Deficit)	270	3
Business rates top up grant	4,903	4,940
Revenue Support Grant	8,387	7,170
Other grant	1,284	1,408
Fees and charges	885	397
Total Income	**36,868**	**36,024**

Appendix Two

Capital Programme

	16/17 £000	17/18 £000	18/19 £000	19/20 £000
Proposed Programme				
Improvements to Fire Stations	500		500	500
Vehicles and firefighting equipment	3,000		1,925	1,225
ICT Telephony Equipment	90			
Total proposed spending	3,590	0	2,425	1,725
Less estimated proceeds of vehicle sales	(250)		(140)	(80)
Net programme cost	**3,340**	**0**	**2,285**	**1,645**

	16/17 £000	17/18 £000	18/19 £000	19/20 £000
Proposed Capital Fund				
Balance on 1st April	1,300	260	1,060	(125)
Add monies from revenue budget	2,300	800	1,100	1,800
Less Capital spending	(3,340)	0	(2,285)	(1,645)
Balance on 31st March	**260**	**1,060**	**(125)**[1]	**30**

[1] A small deficit at this stage is not a cause for concern.

Appendix Three

Recommended Prudential Indicators

1. Introduction

1.1 This appendix details the recommended prudential indicators.

2. Proposed Indicators of Affordability

2.1 The ratio of financing costs to net revenue budget:

	%
16/17	6.3
17/18	6.3
18/19	5.9
19/20	5.1

2.2 The estimated incremental impact on council tax of capital investment decisions proposed in the budget, over and above capital investment decisions that have previously been taken by the authority are:

	Band D Tax (£)
16/17	7.19
17/18	6.96
18/19	6.36
19/20	5.55

3. **Indicators of Prudence**

3.1 The forecast level of capital expenditure to be incurred for the years 2016/17 to 2019/20 are:

	£000
16/17	3,590
17/18	0
18/19	2,425
19/20	1,725

3.2 The capital financing requirement, which measures the authority's underlying need to borrow for a capital purpose, is shown below. Due to the new strategy of funding capital from revenue, this indicator is reducing.

	£000
16/17	18,324
17/18	16,024
18/19	13,799
19/20	11,841

4. **Treasury Limits for 2016/17**

4.1 The proposed limits on borrowing for 2016/17 are:-

	£000
Operational Boundary	20,300
Authorised Limit	23,300

The authorised limit is a legal maximum which cannot be exceeded. The operational boundary is a day to day ceiling which ordinarily would not be exceeded, and must be reported if it is.

Appendix Four

Minimum Revenue Provision

1. This appendix states the Authority's policy for the repayment of debt incurred for capital expenditure. This is charged to the revenue account and is known as Minimum Revenue Provision (MRP).

2. For borrowing incurred before April 2008, and debt which is notionally supported by Government grant (essentially, older borrowing), MRP will be charged in line with previous regulations (essentially, 4% of debt is charged each year).

3. For all other capital borrowing, MRP will be charged to revenue such that debt is repaid at the same time as the Authority benefits from the capital expenditure. For new appliances, this would be the useful life of the appliance. For works to buildings, it will be the period over which the Authority benefits from these works.

Appendix Five

Proposed Scheme of Virement

1. This appendix explains the scheme of virement which will apply to the budget, if it is approved by the Authority.

2. The expenditure headings described at Appendix One shall act as budget ceilings, and provide limits on the amount which can be spent on each heading during 2016/17.

3. The Chief Fire and Rescue Officer (CFRO) is authorised to vire sums within budget ceilings without limit, providing such virement does not give rise to a change in the Authority's policy.

4. The CFRO is authorised to vire money between any two budget ceilings, provided such virement does not give rise to a change in the Authority's policy. The maximum amount by which any budget ceiling can be increased or reduced during the course of a year is £250,000. This money can be vired on a one-off or permanent basis.

5. The CFRO is responsible, in consultation with the Chair and Vice Chair if necessary, for determining whether a proposed virement would give rise to a change of policy.

6. The Treasurer may vire money between budget ceilings where such movements represent changes in accounting policy, or other changes which do not affect the amounts available for service provision.

7. Nothing above requires the CFRO to spend up to the budget ceiling for any service.