

LEICESTERSHIRE

FIRE and RESCUE SERVICE

Status of Report:

Public

Agenda Item:

11

Meeting: Combined Fire Authority

Date: 11th February 2015

Subject: Budget 2015/16

Report by: The Chief Fire and Rescue Officer

Author: Trevor Peel (Director of Finance and Corporate Services)

For: Decision

1. Purpose

- 1.1 The 2004/05 budget was the first the Combined Fire Authority (CFA) set using its new precepting powers. From the 1st April 2004 the CFA has received the majority of its funding from two main sources. The Formula Grant (which included the Revenue Support Grant (RSG) and Redistributed Business Rates income) came direct from the Department for Communities and Local Government (DCLG). Its precepting income, the Council Tax, came via the seven district and two unitary Authorities. It also received a significant amount of specific grant funding from the DCLG.
- 1.2 The purpose of this report is to request approval of the Annual Budget, Council Tax and Treasury Management Strategy for 2015/16 and the 2015/16 Capital Programme.

2. Executive Summary

- 2.1 This report proposes a gross volume standstill budget for 2014/15 of £38,035,290 and a total gross budget requirement of £37,123,957. It identifies that the CFA needs to set a Council Tax for 2015/16. It authorises the Treasurer to raise the precept and enter into such loans as are appropriate to fund the capital spending of the CFA. It seeks approval to the draft 2015/16 Capital Programme and the approval of the Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16. It proposes the use of £195,459 of the unallocated General Reserve. This figure is based on a 1.99% increase in Council Tax and will be higher if either a lower or a nil increase is agreed by the CFA. This will support the 2015/16 Annual Budget and be assisted by a £61,286 decrease in the General Reserve. It is proposed to retain £1,677,260 of unallocated reserve for the 2016/17 budget to give time for transition to meet budget reductions. Again this figure is based on a 1.99% increase in Council Tax and will be reduced if either a lower or a nil increase is agreed by the CFA.
- 2.2 After taking into consideration the significant decisions on the Integrated Risk Management Plan (IRMP) proposals that will be taken by the CFA at this meeting, it is proposed to submit the draft Medium Term Financial Plan (MTFP) to Policy Committee in March and to the full CFA for approval in April.

3. Report Detail

Background

- 3.1 The final Local Government Finance Settlement for 2014/15 was announced by the DCLG on the 5th February 2014. This settlement introduced the new funding arrangements that arose as a direct result of the Local Government Finance Act 2012. The final adjusted Start Up Funding Assessment for 2014/15 was £18,177,165 which was a decrease of £1,519,839 compared to the adjusted 2013/14 Start Up Funding Assessment of £19,697,004. This was a 7.71% decrease in the Start Up Funding Assessment.
- 3.2 The CFA on the 12th February 2014 set a total gross budget requirement of £38,349,670. After carefully considering all of the options available to it, the CFA set its ninth Council Tax at £59.25 for a Band D property (a 1.5% increase). The property tax base for 2014/15 was 289,452.42. In total a sum of £17,150,635 was due to be raised from Council Tax in 2014/15 with a further £255,963 arising from the 2013/14 Collection Fund Surplus.
- 3.3 In 2001 the Chartered Institute of Public Finance and Accountancy (CIPFA) published the Code of Practice for Treasury Management in the Public Sector incorporating cross-sectoral and sector-specific guidance notes. This Code was originally produced in 1992 and updated in 1996 to take account of changes in the financial markets. The Code requires an annual report on Treasury Management Strategy and performance. An Annual Investment Strategy is also required to be approved by the CFA.
- 3.4 Whilst the two strategies could be considered separately, the overlap is such that the production of a single strategy report is sensible. This report includes the proposed Treasury Management and Investment Strategy for 2015/16. The term "Treasury Management" encompasses all borrowing, capital financing, lending and cash management activities. The annual Treasury Management report for 2013/14 was considered by the CFA on the 10th December 2014.

Revenue Spending Power

- 3.5 The provisional Local Government Finance Settlement proposes how much grant Central Government will give to each Local Authority in England for the next financial year. The Illustrative Settlement normally provides data for at least two years, however, due to the impending General Election in May 2015, no figures beyond next year have been provided. The 2010 and 2013 Spending Reviews announced the total Formula Grant all Local Authorities will receive until 2015/16. The provisional Local Government Finance Settlement issued on the 18th December 2014 sets out how that grant will be distributed between Authorities in the next financial year in "a fair and sustainable way", and how much each individual Authority will receive. There was a statutory consultation where Councils and other interested groups had the chance to comment on the proposals. This closed on the 15th January 2015. No individual meetings were offered with Ministers. The final 2015/16 settlement will be laid before the House of Commons in mid-February.
- 3.6 In order to understand the political context of the Local Government Finance

Settlements for 2015/16 attention has to be given to the CFA's Revenue Spending Power. DCLG redefined spending power in 2013/14 as an Authority's total income which is comprised of its Council Tax requirement, plus its Start Up Funding Assessment (now defined as Settlement Funding Assessment), plus any Specific Grants. In 2015/16 the same calculation applies with a Business Rate Adjustment (to reflect the 2% cap the Government had previously announced in the Autumn Statement rather than the 2.3% increase it should have been), plus it assumes the CFA will take up the Council Tax Freeze Grant offered by DCLG.

3.7 For the CFA this concept is now represented by DCLG in the following manner:

Description	2014/15* £m	2015/16 £m
Council Tax Requirement	17.151	17.300
Settlement Funding Assessment	18.177	16.562
Specific Grants	1.240	1.165
Council Tax freeze grant 2015/16	0.000	0.196
Business Rate Adjustment	0.085	0.119
Revenue spending power	36.653	35.342
Total decrease		-1.311
		-3.58%
Number of dwellings	430,558	430,558
Revenue spending power per dwelling	£85.13	£82.08
Total decrease		-£3.05
		-3.58%
Total decrease for all CFAs		-2.92%

*DCLG have amended the 2014/15 calculation by adjusting the Settlement Funding Assessment to reflect proposed changes in 2015/16 to employer's pension contributions for the firefighters' schemes and an adjustment to specific grant which is still being investigated.

Settlement Funding Assessment

3.8 DCLG funding for the CFA (the Illustrative Local Government Finance Settlement) for 2015/16 was initially announced on the 5th February 2014. In it the Government redefined the Start Up Funding Assessment as the Settlement Funding Assessment. The Settlement Funding Assessment was comprised of Revenue Support Grant and the Baseline Funding Level. The Revenue Support Grant was funded fully by DCLG and the Baseline Funding Level through Business Rates.

- 3.9 The 2014/15 Settlement is directly comparable to the provisional 2015/16 Settlement as shown below:

	2014/15		2015/16
Revenue Support Grant	£10,154,966	Revenue Support Grant	£8,386,749
Baseline Funding Level	£8,022,199	Baseline Funding Level	£8,175,489
Start Up Funding Assessment	£18,177,165	Settlement Funding Assessment	£16,562,238

In 2015/16 the Revenue Support Grant is £1,768,217 lower offset by an increase of £153,290 in Business Rate income resulting in a reduced Settlement Funding Assessment of £1,614,927. An overall reduction of 8.88%.

- 3.10 Of the 2014/15 Baseline Funding Level £3,210,267 was anticipated by DCLG to be the CFA's 2% share of the redistributed Business Rates. The remaining £4,811,932 was paid from the central pool by Central Government as part of the Finance Settlement. This was in effect the CFA's Top Up grant. This Top-Up grant is increased to £4,903,880 in 2015/16.

- 3.11 DCLG funding to the CFA can therefore be determined as:

	2014/15	2015/16
Revenue Support Grant	£10,154,966	£8,386,749
Top-Up Grant	£4,811,932	£4,903,880
DCLG Funding	£14,966,898	£13,290,629

In 2015/16 DCLG Funding is therefore £1,676,269 lower.

Business Rates Income

- 3.12 Ten Leicestershire Authorities including all the District and Borough Councils, the City and County and CFA agreed to pool business rates in the Autumn of 2012. The Policy Committee on the 7th November 2012 agreed the proposal to pool business rates and delegated authority to both the Chief Fire and Rescue Officer and the Director of Finance and Corporate Services, in consultation with the Chair and Group Leaders, to agree the pooling governance arrangements.
- 3.13 The Leicester and Leicestershire Business Rates pool informed DCLG in January 2014 that it wished to end the business rate pool at the end of March 2014. The main reasons for the withdrawal were uncertainties around both business rate policy and regulation, and the probability of future change to business rate liabilities. Included within this was major uncertainty around both the accounting and 'pool' treatment of appeals and compensatory grants. The uncertainties mean that all members of the pool were unwilling to take the risks associated with continuing the pool. All previous members have now indicated to DCLG that they are happy to renew the pool again for

2015/16 after receiving clarification around the implications of the financial settlement.

- 3.14 The CFA's share of locally collected Business Rates in 2014/15 is distributed directly from Billing Authorities and included with the Council Tax Precept payments. DCLG in February 2014 believed that this would total £3,210,267 in 2014/15 based on information received in 2013/14. The Billing Authorities submitted their National Non-Domestic Rates Returns (NNDR1s) at the end of January 2014 and this gave a revised collection total of £3,288,384, an increase of £78,117 on the DCLG figure. The provisional settlement indicates that this is expected to decrease by £16,775 to £3,271,609 in 2015/16 (a 0.51% decrease).

Council Tax Requirement

- 3.15 The 2004/05 budget was the first the CFA set using its new precepting powers. Its precepting income, the Council Tax, comes via the seven District and two Unitary Authorities. The budget for 2015/16 is based upon a 1.99% increase in Council Tax (**Appendix 1C**) and a 2.14% increase in the Council Tax base for 2015/16. Thus Council Tax income of £17,150,635 in 2014/15 rises to £17,866,516 in 2015/16.
- 3.16 The local assessment of Council Tax receipts in 2015/16, based upon a zero Council Tax increase (**Appendix 1A**), is that it will generate £17.518m, £0.218m more than predicted by DCLG (as per the table in paragraph 3.7).

Council Tax freeze grant

- 3.17 The Chancellor of the Exchequer announced in June 2013 that the Government intended to make funding available to help Authorities freeze their Council Tax in 2014/15 and 2015/16. The DCLG wrote to the CFA on the 15th January 2014 to set out the terms relating to the 2014/15 Council Tax Freeze Grant. The Local Government Minister announced on the 18th December 2014 that funding equivalent to a 1% Council tax increase would be available as Council Tax Freeze Grant in 2015/16. It is anticipated that the scheme for 2015/16 will closely follow the terms of the 2014/15 scheme. The scheme will be voluntary, will be administered by DCLG and will apply separately to each billing and major precepting Authority in England rather than to each Council Tax bill issued. Funding will be supplied by DCLG to participating Authorities in 10 instalments to mirror Council Tax receipts.
- 3.18 In 2015/16 the amount an Authority will receive will be equivalent to one per cent of its 2013/14 average Band D amount multiplied by an amended Council Tax base for 2014/15 (which is increased by DCLG as a further 0.87% increase in the base). According to DCLG the CFA would be entitled to £195,541 under the scheme. To take the offer of the grant would therefore decrease anticipated CFA income (against a 1.99% increase) by £153,062. There is no commitment beyond this settlement to add any allocated Freeze Grant into future funding settlements.

Council Tax referendums

- 3.19 The Localism Act 2011 abolished capping powers and instead introduced provisions for Council Tax referendums, so that local electorates can decide on Council Tax increases above specified levels rather than Central Government. The recent offer of grant to Authorities that freeze or reduce their Council Tax in 2015/16, and the fact that

no Council Tax principles are being proposed for Town and Parish Councils in that year, makes it likely, in the view of DCLG, that few, if any Authorities are likely to trigger a Council Tax referendum in 2015/16.

- 3.20 Schedule 5 of the Localism Act 2011 makes provision for Council Tax referendums to be held if an Authority increases its Council Tax by an amount exceeding principles determined by the Secretary of State and agreed by the House of Commons. Only Authorities which decline the Council Tax freeze grant offer and contemplate setting increases in Council Tax which exceed the principles need concern themselves about the position on Council Tax referendums. It is estimated that the cost of running a stand-alone referendum is in the region of £1.2m (although this figure can be reduced if the costs are shared with another vote). If the CFA lost the referendum the estimated cost of rebilling Council Tax is also in the region of £1.2m.
- 3.21 The Local Government Minister in his statement on the Provisional Local Government Finance Settlement 2015 to 2016 announced that all Local Authorities are required to seek the approval of their local electorate in a referendum if they set Council Tax increases that exceed 2%. The referendum limit has not changed from 2014/15. Authorities will need to take care that they do not inadvertently trigger a referendum by exceeding the relevant principle by some tiny margin – any increase above the relevant principle, even by a fraction of a percentage point, would require a referendum to be held. Under the Local Government Finance Act 1992, the CFA is required to set its Council Tax rate by the 1st March 2015. Council Tax options for a 0%, 1.5%, 1.99%, £5 and £10 increase are shown in Appendices 1A to 1E. A £5 or £10 increase would trigger a referendum.

Specific Grants

- 3.22 Specific grants are not technically part of the Settlement but are normally announced at the same time to help Authorities plan. DCLG have announced summary allocations for the Fire Revenue Grant (New Dimensions and FireLink). DCLG wrote to the Chief Fire and Rescue Officer (CFO) on the 24th November 2014 to inform him of the outcome of a joint Government / Chief Fire Officers' Association (CFOA) review of Urban Search and Rescue (USAR) capabilities in England and the impact this will have on grant funding for these capabilities from 2015/16 onwards. It was proposed that annual savings of around £2 million across the capability would apply and that each USAR Authority would fund this via a proportionate reduction in their Section 31 grant payment. Accordingly, an amount of £102,560 has been reduced from the CFA's Fire Revenue Grant in 2015-16. The Adjustment for Business Rates was announced on the 18th December 2014. The CFA currently receive four grants (three revenue and one capital) and these and the new grants are detailed below showing the anticipated levels included in the Provisional Settlement:

	2014/15		2015/16	
	£	%	£	%
Fire Revenue Grant				
New Dimensions	999,463		896,899	-10.26
Firelink	264,180		267,857	+1.39
DCLG Adjustment	-23,791		0	100.00
Total Revenue Grants	1,239,852	-1.12	1,164,756	-6.06
Business Rates Adjustment	85,161	+100.00	119,226	+40.00
Capital Grant	1,048,713	0.00	0	-100.00

3.23 FireLink

The introduction of Firelink introduced a net new burden for the CFA. The net new burden was calculated by comparing the difference between the Airwave service costs and the operational costs of legacy wide area radio systems based on cost returns submitted by Fire and Rescue Authorities which were subject to a separate verification check during 2007/08. Net New Burdens are paid by a Section 31 grant for the remainder of this Comprehensive Spending Review period. The grant increased to £264,180 in 2014/15 to reflect price increases agreed in the national contract.

3.24 Capital Grant

In 2014/15 DCLG allocated £18.812m to 15 Fire and Rescue Authorities following the Capital Bid award. A further £51.188m was distributed to all Fire and Rescue Authorities on a population basis as previously and the CFA received £1,048,713 through this method. For 2015/16, £75m of Capital grant was distributed through the Fire Transformation Fund based entirely upon a bidding process. The CFA's bid for £1.24m was not successful. This was challenged by the CFO and the Treasurer, however DCLG have stated that there is no appeal process and that the decision made will not be changed.

CFA Income

3.25 This includes all other locally generated income which includes things like Occupational Health and Prince's Trust income, fees and charges for services provided by the CFA. The other two main areas of income are Radio Mast rentals and Bank Interest. Bank interest is generated through the CFA's Treasury Management activities and is influenced by the amount of cash the CFA has to deposit and the level of interest rates available. All income budgets have been increased by 1.3% (the rate of the Consumer Price Index (CPI) as at October 2014) to reflect the agreed Medium Term Financial Strategy.

Other temporary funding

- 3.26 This is normally comprised of two funding streams. The estimated surplus or deficits on the Billing Authorities Council Tax and NNDR collection accounts and the use of reserves. The County Council has obtained final estimates of current surpluses from the seven District Authorities and these are included in **Appendices 1A to 1E**. A final estimate has also been received from the City Council and from Rutland. It is estimated that this will generate £269,906 of temporary income in 2015/16.

Reserves

- 3.27 The Local Government Act 2003 requires the CFA's Treasurer to report on:
- a) the robustness of the estimates included in the budget; and
 - b) the adequacy of the proposed financial reserves.

Central Government believes that those Authorities which have substantial reserves should also consider using these to address short term costs and pressures, and invest now in order to realise savings in the longer term. It is anticipated that at the 31st March 2015 the CFA will have £3.79m in the General Reserve and £1.447m in specific earmarked reserves. These have been reviewed as part of the budget setting process. The General Reserve can be broken down into the £1.917m CFA contingency fund (5% of the 2014/15 expenditure budget) plus £1.873m of unallocated reserve which can be used to support the 2015/16 Annual Budget and future budgets.

3.28 **Robustness of Estimates**

The Treasurer and the Senior Management Team (SMT) have worked closely in producing this budget. As well as agreeing certain assumptions such as inflation, all estimates have been reviewed by appropriate staff. In addition, SMT have identified the main risk areas in the budget and the Treasurer has evaluated these and used this information to determine the overall level of the General Reserve.

3.29 **Reserves and Balances**

The budget proposed has a number of inherent risks i.e. the risks of savings not being achieved, the possibility of the operational pay award being greater than 1%, charges for cross border arrangements, spending on retained services and possible further pension demands from the retained service with the ongoing appeal against exclusion from the 1992 Firefighters Pension Scheme. In light of all of these factors it is proposed to set the reserve at 5% of the gross budget (£1,856,198). This will require no growth in 2015/16 as the unallocated reserve is higher than this at present. Of the £1,030,712 allocated to the General Reserve by the CFA in December 2013 an amount of £205,188 was required to meet the budget expenditure requirement in 2014/15. The remaining balance in the unallocated General Reserve (£825,524) was agreed to be used to support both permanent and temporary expenditure required in 2015/16. An amount of £195,459 is required to meet the expenditure requirement in 2015/16. In 2014/15, an additional sum of £1,053,623 has been allocated to the General Reserve by the CFA.

- 3.30 At present the CFA holds a number of earmarked reserves for other specific purposes

and these are detailed below:

Specific earmarked reserves and balances estimated as at 31st March 2015

Occupational Health	39,538
IRMP Reserve	414,942
Part Time Workers	70,202
Insurance – Employees	74,760
Ill Health Retirement Reserve	172,286
Relocation Reserve	18,577
Consortium Insurance Reserve	200,728
Officers' Cars	81,450
Prince's Trust	149,300
Motor Insurance	75,000
ESMCP Contingency	150,000
Total earmarked reserves	
estimated as at 31st March 2015	<u>1,446,783</u>

3.31 A brief description on the use of each of the reserves (except the unallocated General Reserve) is given below:

- **Occupational Health:** The Occupational Health and Fitness Unit have operated in the past as a business unit and any surplus made was carried forward for future developments and to offset any large one-off costs. This reserve will support the proposed relocation of the Occupational Health and Fitness Unit and Forge Health Ltd as a Revenue Contribution to Capital Outlay (RCCO) to the 2015/16 Capital Programme.
- **Integrated Risk Management Plan (IRMP):** A £439,493 reserve was created by the CFA on the 10th February 2010 to meet potential transitional costs arising from the implementation of the IRMP. To date the majority of the transition work has been contained within existing budgets.
- **Part Time Workers:** The CFA agreed in December 2010 to put £200,000 in an earmarked reserve pending decisions from the Employment Tribunal relating to the outcome of the Part Time Workers (Prevention of Less Favourable Treatment) Regulations 2000. £70,202 remains to cover the anticipated pension costs arising from this case.
- **Insurance – Employees:** Sufficient provision needs to be made to cover the CFA's self-insurance levels. The amount that will be required to settle claims in any one year varies significantly and therefore, is highly unpredictable. The level of reserve required is also likely to be influenced by the insurance market.
- **Ill Health Retirement Reserve:** This was created as part of the 2007/08 budget and is required to support the costs to the CFA following firefighters' ill health retirements. At present the reserve is still sufficient but may need to be replenished in 2016/17.

- **Relocation Reserve:** This was created as part of the 2007/08 budget and will be used in 2015/16 to support the relocation of any newly appointed staff. At present the reserve is sufficient to meet an estimated two instances of relocation.
- **Consortium Insurance Reserve:** This was created by the CFA as part of the 2007/08 Revised Estimate. It protected the CFA in the event of higher than anticipated funding demands by Fire and Rescue Authorities Mutual Limited (FRAML). An additional £100,000 was added by the CFA at its meeting of the 11th December 2013 to meet the capitalisation costs of the consortium company for the implementation of insurance pooling. A further additional sum of £25,728 was agreed by the CFA at its meeting of the 25th June 2014.
- **Officers' Cars:** At the time the last set of Area Managers' cars were purchased it was agreed that it was more cost effective for the CFA to fund the purchase itself. All savings made against the leasing budget are allocated to this reserve which, when combined with the sale proceedings from the current vehicles should be sufficient to fund the next purchases in full.
- **Prince's Trust Reserve:** An original reserve for £144,100 was agreed by the CFA at its meeting of the 24th June 2013 to meet the future potential redundancy and notice period costs of the Prince's Trust Team should it lose its income streams. A further £5,200 was added to the reserve by the CFA at its meeting of the 11th December 2013.
- **Motor Insurance:** A reserve for £75,000 was agreed by the CFA at its meeting of the 11th December 2013 in respect of the uninsured excess elements of motor insurance.
- **Emergency Services Mobile Communications Programme (ESMCP):** A contingency of £150,000 was agreed by the CFA at its meeting of the 25th June 2014

Annual Budget 2015/16

3.32 A detailed budget for 2015/16 is attached at **Appendix 2**. This budget is based on the gross Volume Standstill budget for 2015/16, which provides a neutral starting point for the production of the budget and is detailed below. It removes any temporary growth, updates for permanent changes arising from the Revised Estimate, provides funding for the 2014/15 Capital Programme and reflects what has already been agreed by the CFA and national decisions. The volume standstill budget updates the 2014/15 original budget for:

	£
Total Budget Requirement 2014/15	38,349,670
less 2013/14 & 2014/15 temporary growth	-41,750
Add 2014/15 temporary savings	+159,950
less ongoing implications of the 2014/15	-937,150

Revised Estimate	
plus Revenue costs of 2014/15 Capital Programme	+188,370
plus 2015/16 inflation assumptions	+29,370
plus pay inflation of 1% 2015/16	+276,680
plus Support Staff (April 2015) increments	+10,150
2015/16 Volume Standstill budget	38,035,290

3.33 Inflation

The only non-pay allowance for inflation in the 2015/16 Annual Budget is £29,370 for anticipated increases in business rates (+2.0%) and inflation related contracts (+2.3%), heating and lighting (+1.3%). No inflation has been added for fuel costs. The Annual Budget for 2015/16 provides £276,680 to reflect the anticipated effects of a 1% pay inflation expected during the year for Operational staff and the agreed 2.2% increase for Administrative staff from January 2015 to March 2016.

3.34 Increments

Provision is made within the Volume Standstill budget for increments for support staff in April 2015 arising from their national terms and conditions. The CFA currently has a local arrangement for a second increment in October 2015 that arose from the 2003 Support Staff review. It is proposed that no accelerated incremental progression payments will be made in October of each year from 2015/16.

3.35 Service Pressures / Improvements

In order to arrive at the final 2015/16 Annual Budget requirement the gross Volume Standstill budget has been revised to reflect the efficiencies and growth identified in **Appendix 3**. These are covered in more detail below.

3.36 Efficiencies

In total permanent efficiency savings of £1,509,335 have been identified and these are listed in **Appendix 3**. All are cashable efficiency savings and include:

- the establishment changes arising from Phase 1 of Day Crewing Plus - £139,690
- the removal of running costs of Moira Station - £13,080
- the reduced re-negotiated contract cost of waste disposal - £15,890
- the disestablishment of a Group Manager Fire Control post - £69,050
- reductions to the average employers' pension contribution to Operational staff pension schemes - £20,000
- the disestablishment of 5 Flexi Duty Officers - £337,630 - and associated reductions in car leasing costs - £16,850

- the disestablishment of 3 Watch Manager posts - £138,201
- the one third reduction in operational overtime - £125,120
- the outcomes of the Support Staff Review (including conversion of some uniform posts to support staff roles) - £620,634
- the reduction to the Chief Fire and Rescue Officer's pay - £13,190.

In addition temporary savings of £70,000 are made by not incurring Fire Service College training costs in 2015/16 as there will be no recruitment of new firefighters and a further £87,750 from the Personal Protective Equipment (PPE) Budget as a virement for a Revenue Contribution to Capital Outlay (RCCO) to the 2015/16 Capital Programme for the purchase of mid-layer tunics.

3.37 Growth Requests

Members will be aware that the CFA with its reduced government settlement and ongoing requirements from existing policies has limited capability of delivering any growth without it impacting upon the Council Tax bills for future years. The Medium Term Financial Strategy states that reserves and balances and one-off savings should only be used to finance one-off expenditure. If such monies are used to fund ongoing revenue expenditure without taking action to reduce underlying expenditure, the Authority would find itself facing the same deficit in the next and future years but without reserves available to finance it. This is underlined by the District Auditor's 'Golden Rule' that "one off" revenue reserves should not be used to support 'ongoing' revenue expenditure. This rule is breached in the 2014/15 Annual Budget as part of the permanent growth will be funded from temporary sources.

Modest growth requests (both temporary and permanent) are included in **Appendix 3** and detailed below:

- **Local Government Pension Scheme (LGPS) Employer Contributions:** An actuarial review in 2013 determined that in order to meet anticipated deficits on the pension fund, a 1% increase (£40,540 in 2015/16) in the employer's contributions to the LGPS was required each year to 2016/17.
- **Technical Rescue Additional Responsibility Allowance:** The CFA at its meeting of the 10th December 2014 agreed to the payment of an 8.9% additional responsibility allowance (£95,000 including on costs) for staff appointed to a combined function incorporating Southern Station and Technical Rescue.
- **Shared Area Manager Control:** The gross cost of the new Shared Area Manager Control post (with Nottinghamshire and Derbyshire Fire Authorities) is estimated at £63,000. This is offset by increased income of £42,000 to reflect the Authorities shared contributions and efficiency savings of £69,050 for the disestablishment of a Group Manager Control post.
- **Hydrant Maintenance:** Notification has been received that prices for ongoing hydrant maintenance work are to increase by an average 23.5%. If the same level of work were to continue, growth of £17,980 is required.
- **Support Staff Review:** Additional responsibilities and new posts costs following the Support Staff Review total £214,902.

- **Temporary Growth Requests:** In line with the policy described above five temporary growth items totaling £324,330 are proposed which meet the criteria:
 - Contribution to the National Operational Guidance Programme - £20,000
 - Contribution to the collaborative PPE procurement project - £10,000
 - Estimated operational over establishment in 2015/16 - £200,330
 - RCCO to the 2015/16 Capital Programme for mid-layer tunics - £87,750
 - Council Tax temporary administrative support - £6,250

These will be met from temporary savings of £157,750 (as shown in **Appendix 3**) with the remainder being met from the Council Tax Collection Fund surplus (£269,906). This means in effect that with using £195,459 from the unallocated General Reserve, £298,785 of temporary funding is being used to support the permanent budget.

3.38 The proposed budget for 2015/16 assumes a 1.99% Council Tax increase and produces a Council Tax requirement as detailed below:

	2014/15	2015/16	
	£	£	%
Gross Budget Requirement	38,349,670	37,123,957	-3.20
less Specific Grants	-1,531,634	-1,283,982	-16.17
less CFA income	-947,840	-884,570	-6.68
less the collection fund surplus	-255,963	-269,906	+5.45
less the use of reserves	-251,383	-256,745	+2.13
Net budget requirement	35,362,850	34,428,754	-2.64
less Revenue Support Grant	-10,190,016	-8,386,749	-17.70
less Redistributed Business Rates (Baseline Funding Level)	-8,022,199	-8,175,489	+1.91
Council Tax Requirement	17,150,635	17,866,516	+4.17
Council Tax Base	289,452.42	295,651.02	+2.14
CFA Council Tax	£59.25	£60.43	+1.99

Capital Programme

3.39 A draft capital programme for 2015/16 is attached as **Appendix 4**. The draft programme reflects previous CFA decisions on a number of projects. In 2014/15 the programme was funded through a mixture of utilising Earmarked Reserves, Revenue Contributions to Capital Outlay, Capital Receipts, Prudential Borrowing and DCLG Capital Grant. The CFA will continue to use the same funding methodology in 2015/16, with the exception that there will be no DCLG Capital Grant.

3.40 The prudential code for capital finance was introduced in April 2004. The code abolished detailed central government controls on capital expenditure and replaced these with a requirement to ensure that capital expenditure plans are affordable, prudent and sustainable. The Capital Programme assumes there will be unsupported Capital Expenditure that will be funded through prudential borrowing and that there will be an impact on Council Tax resulting from the unsupported capital expenditure over the three year life of the programme and this is shown in **Appendix 6**.

3.41 Property

The CFA agreed in December 2014 that the agreed Capital budget for the works at Castle Donington could be split over the 2014/15 and 2015/16 financial years and this split is reflected in the proposed 2015/16 capital programme.

It is proposed that a property refurbishment / improvement capital budget is established at £1,750,000. Expenditure on this heading will be reported to Policy Committee following submission and approval of business cases by the Senior Management Team (SMT).

3.42 Other requirements

An ICT Technology budget of £50,000 for system developments is included to continue building upon the improvements to the ICT infrastructure.

It is anticipated that the next phase of development with regards to the SharePoint Infrastructure Architecture and Taxonomy will require £62,500 for consultancy, software development and increased archiving capability.

It is proposed that the Headquarters Internal Phone telephony system is rolled out across the Service at an estimated cost of £90,000. This is anticipated to generate £30,000 per annum efficiency savings in reduced telephone call costs.

Work to upgrade the Wide Area Network commenced in the 2014/15 financial year but is not scheduled for completion until June 2015. The total cost of the work is anticipated at £184,000 with £127,498 required in 2015/16.

Provision has been made to upgrade the shared Agresso finance system to the latest version (Milestone 4) in conjunction with regional partners (£70,000), in keeping with current policy on software versions and avoid the loss of system developer support. Adaptations can be made now that will potentially enable moves to shared services arrangements in the future.

A collaborative regional procurement of a new payroll system (£70,000) is to be considered with the intention that ongoing revenue efficiencies can be achieved.

Operational equipment is proposed to include the Ballyclare Mid-Layer tunic (£87,750) to be funded by RCCO from the PPE budget and £51,200 to enhance the Breathing Apparatus sets with Wi-Fi enabled communication systems and Bluetooth radios.

3.43 Capital Receipts

Provision is also made in the draft Capital Programme for capital receipts of £261,500 for the sale of Moira Fire Station agreed by the CFA in December 2014. However, if the capital receipts are delayed, any balance of the programme still requiring funding will be met from temporary borrowing under the prudential code provided that it is affordable within the approved estimate or if not this could necessitate a re-approval of the programme.

Medium-Term Financial Plan (MTFP)

- 3.44 The 2004/05 budget setting process had to take account, for the first time, of the medium-term financial position. However, after taking into consideration the significant decisions that will be taken by the CFA at this meeting, it is proposed to submit the draft MTFP to Policy Committee in March and to the full CFA for approval in April.

Treasury Management and Investment Strategy for 2015/16

- 3.45 The Prudential Treasury Indicators and the Treasury Management and Investment Strategy must be approved in advance of each financial year by the full Authority. **Appendix 6** to this report sets out the combined Treasury Management and Investment strategy including the Prudential and Treasury Management Indicators for 2015/16.

- 3.46 The Treasury Management and Investment Strategy for 2015/16 in **Appendix 6** covers two main areas:

Capital Issues

- the capital plans and the prudential indicators.
- the Minimum Revenue Provision (MRP) policy.

Treasury Management Issues

- the current treasury position.
- treasury indicators which will limit the treasury risk and activities of the CFA.
- prospects for interest rates.
- the borrowing strategy.
- policy on borrowing in advance of need.
- debt rescheduling.
- the investment strategy.
- creditworthiness policy.
- the policy on the use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the DCLG MRP Guidance, the CIPFA Treasury Management Code

and the DCLG Investment Guidance.

3.47 Prospects for Interest Rates

Bank base rates are currently at a historical low level of 0.50%, having decreased in rapid steps from their April 2008 point of 5.25%. The last rate change was in March 2009 which reduced rates to their current level. The outlook for UK bank base rates is currently extremely uncertain and ultimately depends on how well, and how quickly, the economy continues to recover from recession. The range of forecasts produced by economists is very wide and the only common ground amongst them is that there will be no further base rate reductions. The CFA's Treasury Management advisors, Capita Asset Services, are expecting base rates to remain at 0.5% until the end of September 2015, increasing to 0.75% in December 2015, 1.00% from June 2016, 1.25% from December 2016, 1.5% from June 2017 and finally 2.0% by the end of March 2018.

Establishment Update

3.48 Members will be aware that the CFA reports its establishment as part of the information contained in the Council Tax leaflet. Throughout this report a number of establishment changes have been reported and these have been consolidated in the table below which will be summarised on the 2015/16 Council Tax leaflet:

Description	Paragraph	Firefighters	Retained Firefighters	Control Staff	Support Staff	Total
2014/15 Leaflet		415.0	192.0	28.0	145.9	780.9
2014/15 Revised Estimate	3.32	0.0	-11.0	0.0	-9.3	-20.3
Efficiencies	3.36	-8.0	0.0	-1.0	-18.4	-27.4
Permanent Growth	3.37	0.0	0.0	+1.0	+7.0	+8.0
Revised Total		407.0	181.0	28.0	125.2	741.2

Specified Amounts

3.49 The 1st Edition of the Constitution for the CFA was agreed on the 19th December

2007. It introduced the principle of Specified Amounts in order that changes to the figures would only have to be updated in one place. Future increases in the specified amounts are now incorporated into the Annual Budget. The Specified Amounts proposed in **Appendix 7** increase all of the specified amounts by 2.3% (the current level of Retail Price Inflation (RPI) at October 2014) but maintains the delegation to budget holders for approval of expenditure up to £10,000 based on a minimum of one verbal quotation. Orders over £10,000 will continue to require authorisation by the relevant Director. This is in line with the joint policy adopted by Nottinghamshire and Derbyshire CFAs.

Special Service Charges

- 3.50 Rule 38.1 of the Financial Procedure Rules (Section F of the Constitution) requires the CFO to ensure that all charges that may be made for public services are reviewed at least annually at the time of the preparation of the budget and should be incorporated into the Annual Budget report submitted to the CFA in February. For 2015/16 it is proposed that the schedule for Special Service charges from April 2015 is increased by 2.3% and agreed at the levels proposed in **Appendix 8**.

Travel and Subsistence Policy

- 3.51 The Policy Committee reviewed the Travel and Subsistence Policy for Members and Officers in September 2008 and agreed revised rates for overnight accommodation from the 1st April 2008. The CFA on the 1st October 2008 agreed to set the car allowance for support staff at National Joint Council rates. The Treasurer had delegated authority to keep the policy up to date with national terms and conditions where appropriate.
- 3.52 When the Policy was agreed by the CFA on the 16th March 2005 it reflected that the NJC for Local Government Services had ceased to produce nationally agreed subsistence rates for local government staff in 1996. It adopted for all staff the rates determined by the NJC for Local Authority Fire and Rescue Services, which at the time dated from the 1st January 2003. Since that time, subsistence rates have been a subject for local determination. The only nationally negotiated allowances at the current time are for out of pocket allowances, car allowances and an allowance for the installation of communication equipment.
- 3.53 It is noted that proposals on subsistence and accommodation allowances and their respective rates were discussed by the CFA at its meeting in December 2014. Subsequent to this, the proposals are currently in a consultation period with the Representative Bodies and a proposed policy will be formally presented to the CFA at its meeting in April 2015 for implementation from the 1st April 2015.

4. Report Implications / Impact

4.1 *Legal (including crime and disorder)*

- a) 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.

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

4.2 **Financial (including value for money, benefits and efficiencies)**

These are included in the main body of the report.

4.3 **Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)**

- a) The CFA has to set a budget for 2015/16 within available resources which ensures that the CFA has sufficient reserves to meet financial risks that might occur. The CFA has to live within its financial resources and there is a serious financial risk if the revenue budget is not managed appropriately. The CFA has to agree the use of any of the Financial Reserves set aside for this purpose in the Annual Budget.
- b) The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

- c) Given that debt-financing costs of £2,722,000 and investment income of £63,280 are included within the 2015/16 revenue budget, the performance of the Treasury Management function could have a significant impact onto the CFA’s overall financial position, and performance is monitored as part of the monthly budget monitoring process.

4.4 **Staff, Service Users and Stakeholders (including the Equality Impact Assessment)**

- a) Employee costs account for 72.3% of the CFA’s 2014/15 revised revenue budget, with a further 1.8% being spent on indirect employee expenses. The restrictions enforced as a result of budget planning has only marginally impacted upon these budgets. The proposed budget for 2015/16 has just under 72.2% spent on employees, with a further 1.8% being spent on indirect employee expenses.
- b) An Equality Impact Assessment was undertaken on the Council Tax leaflets in 2006/07. The leaflet informs stakeholders that it can also be produced in other languages, Braille, large print and other formats if requested.

4.5 **Environmental**

The Local Government Finance Act 2012 enables Local Authorities to publish council tax information on their websites rather than in paper format. The CFA will continue to operate this way for this budget.

4.6 **Impact upon Our Plan Objectives**

It is important to ensure that the budget set by the CFA reflects and enables progress to be made against the CFA's corporate objectives. The budget for 2015/16 needs to reflect the CFA's strategic plan, "Our Plan". It also needs to reflect national and regional strategies and policies.

5. **Recommendations**

The CFA is asked to:

- a) Set the gross Volume Standstill budget for 2015/16 at £38,035,290 as shown in **Appendix 2**.
- b) Agree the total gross budget requirement of £37,123,957 as shown in **Appendix 2** based on the Volume Standstill budget adjusted for the growth and savings items listed in **Appendix 3** and a decrease in the General Reserve of £61,286.
- c) Set the Band D Council Tax for 2015/16 at £60.4311
- d) Authorise the Treasurer to issue the necessary precepts to Billing Authorities in accordance with the budget requirement above and the tax base notified by the Billing Authorities, and to take any other action, which may be necessary to give effect to the precept.
- e) Approve the Capital Programme for 2015/16 as set out in **Appendix 4**
- f) Note the 2015/16 financial position, shown in **Appendix 5**.
- g) Approve the Prudential and Treasury Indicators and the Annual Treasury Management and Investment Strategy for 2015/16 as set out in **Appendix 6** to the report, including the policy on approved organisations for lending (Annex 3) and the approved Countries for investment (Annex 4).
- h) Note the Prudential and Treasury indicators required under the Prudential Code set out in Paragraph 3.2 of **Appendix 6** and approve the following limits:

	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Authorised Limit for external debt:				
i) Borrowing	20,716	22,730	21,775	20,796
ii) Other long term liabilities	7,337	6,377	5,478	5,492
Operational Boundary for external debt:				
i) Borrowing	18,216	20,230	19,275	18,296
ii) Other long term liabilities	6,837	5,877	4,978	4,992

- i) Delegate authority for the Treasurer to effect movement within the Authorised Limit for external debt between borrowing and other long term liabilities.
- j) Approve the following borrowing limits for the period 2015/16 to 2016/17:

	2015/16	2016/17	2017/18
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	50%	50%	50%
Maturity Structure of fixed interest rate borrowing 2015/16			
	Lower	Upper	
Under 12 months	0%	30%	
12 months to 2 years	0%	30%	
2 years to 5 years	0%	50%	
5 years to 10 years	0%	70%	
10 years and above	0%	100%	

- k) Authorise the Treasurer to enter into such loans or undertake such arrangements as necessary to finance capital payments in 2015/16, subject to agreed prudential limits.
- l) Approve the removal of the accelerated incremental progression payment for support staff detailed in Paragraph 3.34
- m) Approve the Revised Establishment detailed in Paragraph 3.48.
- n) Approve the changes to the Specified Amounts contained in **Appendix 7**
- o) Approve the revised rates for Special Service Charges contained in **Appendix 8** effective from the 1st April 2015.

6. Background Papers

- a) Medium Term Financial Strategy 2013 – 2016 (CFA Report – 12th December 2012)
- b) Medium Term Financial Plan 2014/17 (CFA Report – February 2014)
- c) Medium Term Financial Plan 2014/17 (Policy Committee Report – March 2014)
- d) DCLG letter to the Chief Fire Officer re: Fire Transformation Fund Capital Grant (17th October 2014)

- e) DCLG letter to the Chief Fire Officer re: Efficiencies in Section 31 grant payments for all USAR-hosting fire and rescue authorities in England (24th November 2014)
- f) Capital and Revenue Revised Estimate 2014/15 (CFA Report – December 2014)
- g) DCLG e-mail to the Treasurer re: 2015/16 Local Government Finance Settlement (18th December 2014)
- h) DCLG Local Government Finance Settlement Papers (18th December 2014)
- i) Local Government Finance Settlement (Policy Committee report – January 2015)
- j) Local Government Finance Settlement (Overview and Scrutiny Committee Report – January 2015)

7. Appendices

- 1A Effect of a nil increase on 2015/16 Council Tax
- 1B Effect of a 1.5% increase on 2015/16 Council Tax
- 1C Effect of a 1.99% increase on 2015/16 Council Tax
- 1D Effect of a £5 increase on 2015/16 Council Tax
- 1E Effect of a £10 increase on 2015/16 Council Tax
- 2 Revenue Expenditure Estimate 2015/16
- 3 Growth and Savings 2015 - 18
- 4 Draft Capital Programme 2015/16
- 5 Draft Financial Position Statement 2015/16
- 6 Treasury Management Strategy Statement and Annual Investment Strategy 2015/16
- 7 Specified Amounts 2015/16
- 8 Special Service Charges 2015/16