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Meeting: **Combined Fire Authority**

Date: **7th February 2018**

Subject: **Budget Strategy 2018/19 to 2020/21**

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

Author: **Mark Noble (Head of Financial Strategy, Leicester City Council)**

For: **Decision**

1. Purpose

The purpose of this report is to seek the authority's approval to the budget for 2018/19, and the proposed budget strategy and capital programme for the period to 2020/21.

2. Summary

2.1 Local government is in the middle of severe financial cutbacks, which will continue until at least 2019/20.

2.2 The fire service is no exception. The Revenue Support Grant payable to LFRS is projected to fall from £11.8m in 2013/14 to £4.2m in 2019/20.

2.3 Nonetheless, fire authorities have been partially protected, and cuts will be less than those made to the wider sector. Revenue Support Grant entitlement has been announced as far ahead as 2019/20, and savings approved in the period to 2016/17 are forecast to be sufficient to live within our means. Increases in council tax income since 2016 have provided limited capacity for some growth to bolster operational capacity.

2.4 The position for 2020/21 is very uncertain. There are no figures for government support beyond 2019/20. The Government has announced that the current 50% system of business rates retention will be replaced by a 75% retention scheme in 2020/21. It is unclear what impact this will have on fire authorities; or, indeed, whether fire authorities will be part of this system at all.

2.5 Furthermore, a funding review will reassess the needs of all authorities from 2020/21. We do not know whether the CFA will gain or lose from this process.

2.6 Notwithstanding this, further savings are expected to be required in the medium term as the Government seeks to eliminate the public sector spending deficit.

2.7 A national response to the Grenfell tragedy is awaited: this report assumes that any significant additional responsibilities will be funded by the Government.

2.8 A 3 year capital programme is also proposed in this report. This will be funded from revenue, without recourse to debt finance.

2.9 The report proposes a council tax of £64.71, an increase of just below 3% on the tax for 2017/18 and the most we can set without a referendum. The authority's tax is currently the third lowest of all combined fire authorities, and will continue to be amongst the very lowest in 2018/19.

2.10 The budget strategy includes two key measures to secure longer term financial sustainability:-

(a) An estates strategy. Previous budgets set aside a sum for management of change (now standing at £5.4m); it is proposed to use this to review and remodel fire stations with a view to achieving operational efficiencies. Co-location opportunities are expected to form a key part of this;

(b) The avoidance of borrowing or leasing for routine capital expenditure. This will generate savings as current leases reach the end of their terms. Future borrowing will only be undertaken on a "spend to save" basis.

2.11 Risks to delivery of the budget are identified at paragraph 13. The key one in the short term is uncertainty about national pay awards.

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 2018/19 which will be circulated separately;

(b) Approve the capital programme described at paragraph 10, and authorise schemes to be committed where stated;

(c) Approve the proposed strategy for deploying the estates strategy reserve, described at paragraph 12;

(d) Approve the proposed changes to other earmarked reserves described in paragraph 12;

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

(f) Note my view that reserves are adequate during 2018/19, and that estimates used to prepare the budget are robust;

(g) Approve the treasury strategy and prudential indicators described in paragraph 15 of this report and Appendix Three;

(h) Approve the proposed policy on minimum revenue provision described in paragraph 16 of this report and Appendix Four;

(i) Note the equality implications arising from the budget, as described in paragraph 17;

(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 subsequent two years (and reflects the multi-year finance settlement):-

Spending	**18/19 £m**	**19/20 £m**	**20/21 £m**
Approved budget 17/18	33.3	33.1	33.1
Technical changes:-			
• Inflation	0.8	1.7	2.1
• Other	(0.3)	(0.6)	(0.8)
Proposed growth	0.3	0.4	0.4
Proposed savings		(0.2)	(0.2)
Contribution to capital	1.4	1.2	1.2
In-year contingency	0.2		
Planning provision		0.3	0.6
Forecast Spending	**35.7**	**36.0**	**36.5**
Income			
Council tax	20.5	21.5	22.3
Business rates retention scheme	9.3	9.5	13.4
Revenue Support Grant	4.8	4.2	
Other grants	0.8	0.5	0.5
Fire authority income	0.3	0.3	0.3
Total Income	**35.7**	**36.1**	**36.5**

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 2018/19, and projected expenditure and income in future years. These forecasts will inevitably change, and will be reviewed when the budget for 2019/20 is prepared. The forecasts are subject to the risks and caveats described in section 13 below.

4.4 In 2020/21, the current business rates retention scheme will come to an end, and Revenue Support Grant will cease.

5. Council Tax

5.1 The authority's proposed tax for 2018/19 is £64.71, an increase of just below 3% on 2017/18. The tax will remain in the lowest quartile of combined fire authorities (and probably remain third lowest). Indeed, if the service charged the average tax of all combined fire authorities, income would be £3.6m per year higher than it is.

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 2017/18, average Band D taxes in the three areas were:-

Authority Area:-	**£**
Leicester City	1,672
Leicestershire County	1,594 – 1,663
Rutland	1,842

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 will show the amount payable for property in each band. It will also show the precepts payable by the City Council, district councils and Rutland.

6. Construction of the Budget

6.1 Constructing the budget commences with the approved budget for 2017/18, and reflects the current establishment of 348 firefighters and 12 apprentices. (Note that the apprentices will not now be recruited until 2018/19).

6.2 In a period of recruitment, there will be times when the service is below establishment, and times when it is above establishment. Periodically, recruitment exercises will be carried out, and it makes sense to anticipate future retirements so that these resource intensive exercises are not too frequent. Consequently, there will be periods when the pay bill exceeds the budget. In the 2017/18 budget, £0.4m was set aside in reserves for this purpose, which can be carried forward into 2018/19. It will also cover the costs of any recruitment activity.

6.3 The 2017/18 budget has been adjusted for the following:-

(a) Technical changes: these are cost increases and savings which take effect without any change in policy. They consist principally of the costs of inflation, offset by savings arising from reducing lease costs and savings in pension contributions;

(b) Proposed growth, nearly all of which is designed to improve operational resilience;

(c) Proposed savings: in the 2016/17 budget strategy, the CFA approved reviews of fleet, premises and management. Target savings arising from these were built into the budget. Most of the target savings have now been achieved;

(d) A contribution to pay for the capital programme: this avoids the need to lease vehicles or borrow money;

(e) Given current risks, a contingency of £0.2m has been included in 2018/19 on a one-off basis;

(f) A planning provision has been added in future years: this amounts to £0.3m per year, accumulating by £0.3m per year each year. The provision is a contingency, which reflects the difficulty in making accurate forecasts and acts as a hedge against uncertainty. It is only included in future years' projections, and is reviewed annually.

7. Technical Changes

7.1 Money has been added to the budget for **inflation**. This has been calculated as follows:-

(a) A provision of £0.6m has been made for **pay awards,** rising to £1.4m by 2020/21. Forecasting is currently difficult, given that an offer of 2% has been made to firefighters for 17/18 (in excess of current budget estimates), but declined. The proposed budget assumes increases of 2% for firefighters in each of 2017/18 to 2019/20, and 1% thereafter. The risk of higher awards is explored in paragraph 13 below. An assumed 2% award to support staff has been included in 2018/19 and 2019/20 in line with the recent employers' offer (1% is assumed for 2020/21);

(b) **Price inflation** has been added to only a limited number of budgets. Other areas of service are therefore required to manage within the level of funding available in 2017/18. Whilst some costs (e.g. technology and utilities) are seeing price increases above inflation, experience in 2017/18 suggests this can be managed within overall budgets (in 18/19 at least);

(c) Money has been added to the budget for the cost of increases in contributions to the **local government pension scheme**. Employers' contributions will increase by 1.3% of payroll each year until 19/20, when the scheme will be reviewed by actuaries. A similar increase is forecast for 2020/21;

(d) A sum of £300,000 per year has been estimated (from 2019/20) for increased contributions to **firefighters' pensions**. The government actuary is due to review the funding of the schemes, and increased rates are anticipated;

(e) £120,000 per year has been added for increases in the cost of **business rates** on the service's properties, as a consequence of the recent revaluation.

7.2 The budget has been reduced for other technical changes. These include:-

(a) £167,000 (rising to £0.5m) has been removed from the budget to reflect savings in **capital financing** costs. These mainly occur because lease rentals cease once vehicles are fully paid for, and no new leases are being entered into;

(b) Savings of £0.1m per annum (rising to £0.3m by 2020/21) are expected to arise from firefighters transferring to the new **2015 pension scheme**. This is less generous than previous schemes, and transitional arrangements were created by the Government. As the transition unwinds, and more staff transfer to the new scheme, the service will save money.

8. Growth Proposed

8.1 The budget position allows scope for a limited amount of growth, and the following is proposed for the CFA's approval. These are almost entirely directed to improving operational capacity:-

(a) A provision of £160,000 has been added to the budget, rising to £320,000 in a full year to expand retained staffing availability. In 2016/17, a sum of £280,000 per annum was removed from the budget (with effect from 2019/20) reflecting savings principally arising from the introduction of TRVs. Nonetheless, retained staff availability has been a source of concern nationally, and we have some stations where appliance availability is well below 100%. Staffing complements for TRVs have, furthermore, not yet been determined. It is recommended that the sum removed from the budget is reinstated, with a small addition, to pilot new approaches to increasing the availability of the retained service;

(b) £100,000 per annum has been provided for regulatory and standards compliance. This is to provide capacity for responding to any issues raised by HM Fire Inspectorate in due course;

(c) £20,000 has been provided to increase capacity to ensure compliance with the public sector procurement regime (which should, as a consequence, result in savings in the cost of items procured).

9. Savings

9.1 The approved budgets for 2016/17 and 2017/18 included an anticipated saving of £250,000 in 2018/19, rising to £450,000 per year by 2019/20, from efficiencies in management, support staff, premises and fleet. The target of £250,000 has been achieved and a further £87,000 needs to be identified by 2019/20. It is expected that this will be delivered by savings consequential to the fleet and estates reviews.

9.2 Minor savings will be achieved by ceasing to support the billing authorities' council tax support schemes, in line with decisions made by the County Council. Administration contributions will cease in 18/19, and contributions to discretionary funds will cease in 19/20.

10. Capital Programme

10.1 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.

10.2 The table at paragraph 4.1 shows a contribution from the revenue budget to fund capital expenditure. This amounts to £3.8m over 3 years; together with the forecast uncommitted balance on the capital fund (£2.1m), £5.9m will be available to finance capital expenditure over the programme period. Any receipts from sales of vehicles or property will be available to supplement this.

10.3 The proposed capital programme is shown at Appendix Two. Appendix Two also shows how this will be financed from the capital fund.

10.4 The capital programme for 2017/18 included the following sums:-

(a) £800,000 in each of 2018/19 and 2019/20 for vehicle and fleet replacement;

(b) £1m in each of these years for work to premises.

10.5 These sums are superseded by the proposals in this report, and therefore no longer required. However, a sum of £0.2m in the 2017/18 programme to purchase ICT is still required and available to meet the costs of a new premises information system.

10.6 A sum of £3.5m has been provided for operational vehicles. This is sufficient to enable vehicles to be replaced in accordance with the new replacement policy, agreed as part of the fleet review. Authority is requested for the Chief Fire Officer to commit this part of the capital programme. It includes:-

(a) A replacement for one of the two aerial ladder platforms, which is coming to the end of its useful life (£0.7m);

(b) Eight firefighting appliances (£2.0m);

(c) Operational response and fire protection vehicles (£0.8m). These include vans and cars, some of which are fitted with blue lights and based at stations. We are actively looking at electric vehicles to reduce reliance on fossil fuels.

10.7 A provision of up to £0.9m is requested for replacement of provided officer emergency response cars (the current fleet of Ford Kugas). These are due for renewal when the current fleet reaches the end of its life in 2019. The fleet will be fitted with lighting and equipment (in accordance with the relevant regulations and standards) in order to enable the nearest officer(s) mobilisation protocols to continue. This element of the capital programme will only be committed by the Chief Fire Officer, in consultation with the Treasurer, Chair and Vice-Chair; and on the strength of a business case. Replacement of the fleet is further complicated by changes in the personal taxation treatment of provided cars – these may mean replacement is not cost effective and require the service to consider allowances for private vehicle use as an alternative. Whilst this will save capital expenditure, it would have a revenue consequence. An options appraisal/business case will be presented to the CFA in time for the 2019/20 budget.

10.8 A provision of £250,000 per annum has been provided for planned maintenance of premises, pursuant to condition surveys. Potential station redevelopment schemes will be considered as part of the estates strategy (see paragraph 12 below). Authority is sought for the Chief Fire Officer to commit this element of the capital programme.

10.9 £0.4m has been provided for firefighting equipment. This includes the following:-

(a) £220,000 for replacement equipment. This includes firefighter branches, method of entry tools, dragon light replacements, ladder props and bodycams;

(b) £160,000 for CCTV in the fleet’s 46 vehicles. This is important for evidential purposes in cases of incidents affecting the fleet;

(c) A small provision of £10,000 for a pilot scheme introducing electric charging points. This will support the transition to greater use of electric vehicles in the future.

10.10 Authority is sought for the Chief Fire Officer to commit the provision for firefighting equipment.

10.11 A sum of £140,000 is provided for increased functionality of the “Firewatch” human resources system. The service needs to manage the process of planning workforce deployment as effectively as possible. Due to the complexity of the shift and crewing requirements of the service, it is proposed to purchase a fully integrated interface which is ready to use, and delivers key functionality such as time management and holiday booking to all employees. A self service module will also be procured, which would free end users from having to log in to Firewatch directly to perform some tasks. Authority is sought for the Chief Fire Officer to commit this element of the capital programme.

11. Resources

11.1 This section of the report describes the income available to the service (the bottom half of the table at paragraph 4.1).

11.2 The most significant source of income (£20.5m) is **council tax**. Council tax levels are set by the CFA, but the tax is collected on our behalf by the City, Rutland and the district councils (the "billing authorities").

11.3 The proposed council tax for 2018/19 is £64.71, an increase of just below 3% on 2017/18. Any higher increase would be subject to a local referendum. 3% has also been assumed for planning purposes in 2019/20, reverting to 2% in 2020/21.

11.4 The tax is charged on properties, and reflects the number of properties advised by the billing authorities. Future projections assume a 1.75% increase each year in the relevant number of properties. This is a higher increase than projected in previous years, but still believed to be cautious (in the last five years, increases have averaged 2.3%, reflecting levels of new housebuilding).

11.5 The table at paragraph 4 also shows income expected from the **business rates retention scheme**. This scheme includes two components:-

(a) A share of the business rates raised locally. The local government sector as a whole retains 50% of rates achieved, with 50% paid to the Government. The fire authority's share, however, is just 1%;

(b) A "top-up" grant for authorities whose assessed needs are greater than their ability to raise rates. The service receives a top-up grant, but this is mainly because the percentage share of business rates we receive is so low. Authorities whose needs are less than ability to raise rates pay a "tariff". Top-up grant will increase in line with inflation each year.

11.6 The billing authorities have until 31st January to advise of rates income due in 2018/19. Final figures will be included in the formal resolution which will be available at your meeting.

11.7 As part of the settlement for 2016/17, the Government offered certainty until 2019/20 regarding the amount of **revenue support grant** we will receive. This has so far been honoured.

11.8 In 2020/21, the Government proposes to change the system of local government finance. We expect this to involve:-

(a) An increase in the share of business rates retained locally from 50% to 75%;

(b) A review of the proportion of the 75% to be retained by different tiers of local government. Fire authorities may be removed from the system altogether;

(c) Cessation of Revenue Support Grant (reflecting the fact that authorities will keep more rates);

(d) A funding review which will reassess authorities' needs. It is expected that this will be reflected in changes to top up payments and tariffs.

11.9 We have no idea how these charges will affect the CFA. However, we have assumed that total resources under the 75% retention scheme (in whatever form is applicable to the CFA) will be £0.5m less than sums due from the business rates retention scheme and Revenue Support Grant in 2019/20 (after inflation). In effect, this assumes that the total financial pot will reduce at national level but that distributional impacts of the changes will be financially neutral.

11.10 **Other grants** include:-

(a) New Dimensions – this is payable for the maintenance of certain equipment which has to be made available to support other services when required. Around £0.9m per year has been received in the past, but this has recently been cast into doubt with the Government only confirming the grant for periods of six months at a time. There is a distinct possibility that the grant will eventually disappear, and the budget assumes the amount received will fall to £0.5m in 2018/19 and £0.2m by 2019/20; and

(b) Firelink, for radio transmission systems.

11.11 **Fire authority income** is income earned by the service itself. It chiefly arises from money received for siting radio masts on the service's property, and income earned from Forge Health. A limited (and reducing) amount is included for investment income.

11.12 The service will have available any surpluses on the **collection fund**. These arise when collection of council tax or business rates by the billing authorities exceeds the budget for previous years. Conversely, where billing authorities perform worse than the budget, a deficit arises. At present, it is assumed that there will be neither a surplus nor a deficit (it is assumed that a forecast surplus on council tax will be offset by a rates deficit). The position may not be confirmed until 31st January.

12. Reserves

12.1 The authority holds the reserves shown in the table below. The table also shows the forecast uncommitted balance on each reserve on 1st April, 2018:-

	Forecast Balance £000
General reserves	2,000
Capital fund	2,517

Estates Strategy	5,408
Over-establishment and recruitment	400
Mobile communications	326
Insurances	200
Ill health retirement	152
Other	15
Total	**11,018**

12.2 **General reserves** are held as a buffer in case of unexpected problems or emergencies during the course of a year, and are available as a last resort.

12.3 The **capital fund** exists to provide sufficient funding to finance the capital programme, and is topped up each year from the revenue budget. This is more fully described at paragraph 10 above, and Appendix Two. The balance shown above allows for commitments from the 2017/18 capital programme: the remainder is available to fund the 2018/19 programme. It also incorporates an existing reserve for business rates retention (£187,000) which is no longer required.

12.4 The reserve for the **estates strategy** was first created in the 2016/17 budget as the "management of change" reserve. The original reason for its creation was to "invest to save" to secure longer term savings, and to provide resources for modernisation and improved operational resilience.

12.5 It is now believed that the best use of this fund is to facilitate a longer term review of the operational estate. This will particularly focus on the adequacy and running costs of fire stations including co-location opportunities, but the fund may also be used to support other measures which improve the cost effectiveness of buildings (including the generation of revenue).

12.6 This work will extend the earlier estates review, which achieved shorter term efficiencies.

12.7 Three projects are currently being evaluated:-

(a) Relocation of the current training centre at Loughborough to a new, purpose built facility which will be shared with the police. If successful, this will also permit the relocation of Loughborough Fire Station and potentially generate a capital receipt;

(b) The rebuilding of Eastern Fire Station on the same site – Eastern is an old, inefficient building which is no longer fit for purpose;

(c) The relocation of Western Fire Station to shared premises with the police at Beaumont Leys. Western is too large for the current staffing model.

12.8 Before any decisions are taken, full business cases will be prepared assessing the expected cost, savings, avoided cost and return on investment. One-off savings of £0.1m in 18/19 will be used to support the review. If justifiable on a spend to save basis, a case for borrowing may also be put to the CFA.

12.9 The authority also has a number of **other reserves**. These include:-

(a) A reserve to cover costs when the workforce is over establishment (which will only occur in the immediate aftermath of a recruitment exercise) and to meet the costs of any recruitment exercise;

(b) A mobile communications reserve, to meet costs arising from any change required to national secure networks;

(c) An insurance reserve, which covers the authority for differences between the insurance value and replacement cost of any vehicles written off;

(d) A reserve to meet costs which need to be paid to the DCLG when firefighters retire due to ill health;

(e) A small reserve of £15,000 to meet any relocation costs arising from recruitment.

12.10 These reserves have been reassessed, and the sums in the table represent estimated amounts now required. As a consequence, a further £0.2m has become available and is now included in the estates strategy reserve.

12.11 The scheme of virement at Appendix Five proposes authorisations to spend these reserves.

13. Risk Assessment and Adequacy of Estimates

13.1 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.

13.2 In my view, the budget for 2018/19 is achievable.

13.3 The forecast position beyond 2018/19 is sensitive to change, and small changes can have a significant impact on available finances. This is particularly so in the case of 2020/21, where we currently have no indication of expected resources.

13.4 It is helpful to categorise risks between those affecting income and those affecting expenditure.

13.5 The most significant source of income is council tax, which comprises 57% of the total in 2018/19 (rising to an estimated 61% by 2020/21). Small variations in the assumptions made can make a big difference. However, the assumed taxbase increases are believed to be conservative. If the taxbase rises by 2.0% in each of 2019/20 and 2020/21 (instead of the assumed 1.75%), this will deliver an additional £0.1m of income each year by 2020/21.

13.6 Consequently, I believe the risk of council tax income being below forecast is low.

13.7 Income from the business rates retention scheme exceeds £9m per year. Over half of this is fixed through the top-up grant mechanism, with £3.7m to £3.9m due from local rates. This sum is not high in the context of the overall budget, but is subject to volatility:-

(a) Based on the level of rates growth achievable in the billing authorities;

(b) More particularly, the risk of the income being less than forecast due to appeals against new rateable values.

13.8 This risk may be removed in due course if the fire service is removed from the business rates retention scheme altogether. In that case, current income would be substituted by Government grant.

13.9 Revenue Support Grant now amounts to just 13% of income. RSG in 2019/20 has been announced and is unlikely to change.

13.10 A prudent forecast has been made of resources in 2020/21, but this must remain a key risk given uncertainty about national resources.

13.11 Key risks to the expenditure side are:-

(a) Pay awards to firefighters (the most significant risk). Provision has been made for 2% in each of 2017/18 to 2019/20, with the implicit assumption that any higher awards will be met by additional Government funding. Each additional percentage costs nearly £0.2m in a full year. Each additional percentage for support staff costs £60,000 per year;

(b) Whether the Home Office will expect the service to implement new initiatives, without providing additional funding. The assumption in this report is that significant recommendations arising from the Grenfell tragedy will be funded;

(c) Any significant increase in inflation, on day to day running expenses. Increases may arise from the recent reduction in the value of the pound, particularly the price of vehicles and equipment given that the majority of items are sourced from outside the UK. The impact of Brexit is not yet known.

13.12 The risks are mitigated by:-

(a) General reserves, which will be maintained at £2m;

(b) Conservative assumptions about future council tax income;

(c) A contingency of £0.2m in the 2018/19 budget;

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

(e) Our policy of funding capital from the revenue budget, which will (over time) reduce the costs of debt financing;

(f) A strategic approach to reviewing the operational estate, with a view to achieving savings.

13.13 I believe the authority's general and earmarked reserves to be adequate for 2018/19, and that estimates made in preparing the budget are robust. Whilst no inflation is provided for the generality of running costs in 2018/19, some exceptions are made, and it is believed that services will be able to manage without an allocation (as has been achieved in recent years).

14. Consultation on the Draft Budget

14.1 Consultation on the draft budget is taking place with business rate payers (who are statutory consultees) and other partners. Any comments received will be reported to your meeting.

15. Borrowing and Investment

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

15.2 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.

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

15.4 The service's treasury activities are carried out by the City Council on the authority's behalf. The service does not need to borrow and takes no risk on its investments (counter party risk is borne entirely by the City Council). Any opportunities to prematurely repay or reschedule existing debt will be taken, where this generates long term savings. However, as the cost of premature repayment is now prohibitively expensive, such opportunities are unlikely to be presented.

15.5 The CFA is required to consider various limits in order to comply with best practice. These are included at Appendix Three.

16. Minimum Revenue Provision

16.1 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. This sets out formally what has been (in effect) our past practice.

16.2 The DCLG is currently consulting on changes to MRP rules, which may require a change to our policy in due course.

17. Equality Implications

17.1 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.

17.2 In accordance with section 149 of the Equality Act, the Authority is required by law to "have due regard" to the following aims of the public sector equality duty:

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

17.3 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.

17.4 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.

17.5 There are no proposals to reduce spending on services which would have a disproportionate impact on protected groups. Increased retained availability is likely to be beneficial to all service users served by these stations. Should there be any proposed changes to services, policy or procedure at an operational level, an impact assessment will be conducted.

17.6 However, the budget strategy does recommend a proposed tax increase for residents. As the recommended increase could have an impact on those required to pay it, an assessment has been carried out to inform decision makers of the potential equalities implications.

17.7 The impact of the tax rise is 4p per week for a band D property, rising to 7p per week for the highest band of properties in the area (before any discounts or exemptions). This will not create a significant additional burden on residents, and the increase will help improve services from which all protected groups benefit. The likely impact does, however, need to be considered in the context of other changes which might affect low income residents (although most low income households will not pay the full increase).

17.8 Disposable income of a large number of households has fallen recently in real terms. This has multiple causes: slow wage growth (only partly offset by rising employment rates), welfare changes and inflation. Future welfare changes are also likely to adversely impact some households reliant on social security benefits.

17.9 The supermarket ASDA researches national income levels. The ASDA income tracker is an indicator of the economic prosperity of 'middle Britain', taking into account income, tax and all basic expenditure. ASDA's customer base matches the UK demographic more closely than that of other supermarkets. The tracker shows that families with the lowest income have seen the biggest reduction in spending power, whereas those in the top bracket have seen spending power increase year on year.

17.10 60% of households saw their discretionary incomes decrease in the 12 months to August 2017. This reflects the continued pressure on household budgets. Inflation in a number of categories, from food prices to electricity and clothing, has increased the cost of essential spending substantially over the past months. Positively, many forecasters have predicted that inflation will drop back in 2018 as the impact of the pound's fall starts to fade.

17.11 Some households reliant on social security benefits are also likely to be adversely affected by further implementation of the Government's welfare reforms.

17.12 The increase in tax alone would contribute only a tiny increase in weekly costs for low income households, but it must be considered that there is likely to be a cumulative impact of the issues described above, particularly for those reliant on welfare benefits.

17.13 Of those with protected characteristics:-

(a) Age – older people are least affected, as they receive protection from inflation in the uprating of state pensions and 100% tax reductions are available under local reduction schemes. Working age people bear the impact of welfare reform reductions, particularly those with children;

(b) Disability – disability benefits have been reduced over time as thresholds for support have increased;

(c) No disproportionate impact is specifically attributable to the characteristic of gender reassignment;

(d) No disproportionate impact is specifically attributable to the characteristic of marriage/civil partnership;

(e) Maternity benefits will not be frozen, and will be increased in line with inflation. However, other social security benefits will be frozen, but without disproportionate impact on those with the characteristic of pregnancy/maternity;

(f) Impact on race depends on the extent to which those with white/BME backgrounds are on low incomes. The tax increase could have an impact on such households;

(g) No disproportionate impact is identifiable arising from the characteristic of religion/belief;

(h) There is potentially disproportionate impact on women, who are disproportionately lone parents. For those in receipt of universal credit or tax credits, a significant proportion of childcare costs are now met from these sources;

(i) No identifiable disproportionate impact is identifiable specifically from the characteristic of sexual orientation.

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

18. Financial Implications

18.1 This report is exclusively concerned with financial issues.

18.2 There are no significant revenue costs arising from the proposed capital programme, unless tax changes make provided cars non-viable. 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. There may be revenue costs arising from investment in ICT, but the aim is to use ICT to reduce cost in the medium term.

19. Legal Implications (Lauren Haslam)

19.1 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.

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

20. **Appendices**

Appendix One – Budget 2018/19

Appendix Two – Capital Programme

Appendix Three – Recommended Prudential Indicators

Appendix Four – Minimum Revenue Provision

Appendix Five – Proposed Scheme of Virement

Appendix One

Budget 2018/19

	2017/18 £000	2018/19 £000
Expenditure		
Employees	24,117	25,030
Fire pensions administration	259	259
Other employee related expenditure	746	466
Premises	2,144	2,247
Transport	1,020	1,040
Supplies and Services	3,174	3,263
Capital financing	3,538	3,371
Contribution to reserves	457	
Total Expenditure	**35,455**	**35,676**
Income		
Council tax	19,496	20,493
Business rates	3,620	3,729
Collection Fund Surplus/(Deficit)	351	
Business rates top up grant	4,988	5,194
Revenue Support Grant	5,609	4,768
Other grant	1,061	1,133
Fees and charges	330	340
Total Income	**35,455**	**35,657**

Appendix Two

Capital Programme

Proposed Programme	18/19 £000	19/20 £000	20/21 £000	Total £000
Vehicles (excluding provided cars)	1,711	563	1,223	3,497
Provided cars	-	786	133	919
Premises	250	250	250	750
Equipment	390			390
ICT	90	25	25	140
	2,441	1,624	1,631	5,696

Use of Capital Fund

	18/19 £000	19/20 £000	20/21 £000
Balance on 1st April	2,137	1,096	672
Add monies from revenue budget	1,400	1,200	1,200
Less capital spending	(2,441)	(1,624)	(1,631)
Balance on 31st March	1,096	672	241

NB: The balance on the capital fund differs from the table at paragraph 12 as it excludes sums required to fund the 2017/18 programme.

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:

	%
18/19	5.8%
19/20	5.1%
20/21	4.7%

2.2 In line with our strategy of financing capital expenditure from revenue, these ratios are reducing.

2.3 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 is nil, because no new borrowing is proposed.

3. Indicators of Prudence

3.1 The forecast level of capital expenditure to be incurred for the years 2018/19 to 2020/21 is:

	£000
18/19	2,821
19/20	1,624
20/21	1,631

3.2 The figure for 18/19 is higher than the figure shown at Appendix Two, due to existing commitments in the 2017/18 capital programme.

3.3 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.

End of:	**£000**
18/19	18,995
19/20	17,847
20/21	16,805

4. Treasury Limits for 2018/19

4.1 The proposed limits on borrowing and leasing for 2018/19 are as follows:-

	£000
Authorised Limit	23,000
Operational Boundary	20,400

4.2 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. The authorised limit provides capacity for any new "spend to save" decisions which the CFA might take.

4.3 Recommended upper limits on fixed and variable rate debt exposures are shown in the table below. The figures shown are the principal sums outstanding on borrowing but not leasing (in practice these are only relevant in the event of debt repayment or rescheduling):-

Fixed interest rate	100%
Variable interest rate	60%

4.4 The Authority has also to set upper and lower limits for the remaining length of outstanding loans that are fixed rate as a percentage of the total of all loans. This table also excludes leasing. Again, these limits are only relevant in the event of debt rescheduling. Recommended limits are:-

Upper Limit

	%
Under 12 months	30
12 months and within 24 months	40
24 months and within 5 years	60
5 years and within 10 years	60
10 years and within 25 years	100
25 years and over	100

Lower Limit

	%
Less than 5 years	0
Over 5 years	60

4.5 Other than money retained in the bank for day to day purposes, all investments are made with the City Council. Balances on this account will not exceed £0.85m, except when there is no reasonable operational alternative.

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 all past borrowing, MRP will be charged at a rate of 3% of the capital financing requirement each year. This is a weighted rate, reflecting the portfolio of assets purchased by debt.

3. For leases, MRP will be charged at a rate equal to the principal element of the rental.

4. 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 2018/19.

3. The Chief Fire Officer (CFO) 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 CFO 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 CFO 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 CFO to spend up to the budget ceiling for any service.

8. In respect of reserves:

   (a) Spending general reserves shall require a decision of the CFA;

   (b) Authorities to use the capital fund flow from the capital programme;

   (c) The Chief Fire Officer, in consultation with the Chair and Vice-Chair, may commit up to £100,000 of the Estates Strategy Reserve for a specific purpose. Higher sums require a decision of the CFA or the Corporate Governance Committee;

   (d) All other reserves may be committed by the Chief Fire Officer, in accordance with the purpose for which the reserve is held.