

# ESSEX FIRE AUTHORITY

## Essex County Fire & Rescue Service



MEETING

**Policy & Strategy Committee**

AGENDA ITEM

**4**

MEETING DATE

11 January 2017

REPORT NUMBER

**EFA/001/17**

SUBJECT

**Draft Budget for 2017-18**

REPORT BY

The Acting Chief Fire Officer and The Finance Director & Treasurer

PRESENTED BY

The Finance Director & Treasurer, Mike Clayton

### SUMMARY

The purpose of this report is to:

- Provide the draft revenue and capital budgets for the Authority for 2017/18;
- Provide information on the budget and business planning process; and
- Provide information on the formula grant settlement, share of national non-domestic rates, council taxbase and collection account for 2017/18.

Following the decision of the Fire Authority in June 2016 to support Option 2 of the Service change options the budget has been prepared showing figures for a Council Tax increase of 1.99%.

### RECOMMENDATIONS

Members are asked to agree the budget to be submitted to the Fire Authority on 15 February 2017:

	<b>2016/17 Budget</b>	<b>2017/18 Budget</b>
<b>Net Expenditure</b>	£71,304k	<b>£70,113k</b>
Decrease from 2016/17		-£1,191k
Precept	£41,224k	£42,807k
<b>Band D Council Tax</b>	<b>£67.68</b>	<b>£69.03</b>
Increase from 2016/17		<b>1.99%</b>

1. A net expenditure budget of £70.113m;
2. A precept of £42.807m;
3. A Band D council tax of £69.03 (an increase of £1.35 or 1.99%);
4. The bands of Council Tax are shown in the following table.

Council Tax Band	2016/17	2017/18 with 1.99% Increase
A	£45.12	£46.02
B	£52.64	£53.69
C	£60.16	£61.36
<b>D</b>	<b>£67.68</b>	<b>£69.03</b>
E	£82.72	£84.37
F	£97.76	£99.71
G	£112.80	£115.05
H	£135.36	£138.06

5. Capital expenditure budget of £11.890m in 2017/18.

## LOCAL GOVERNMENT FINANCE SETTLEMENT

In September 2016 the Authority approved an efficiency plan for the period to 2019/20 and this was submitted to the Government. The provisional settlement figures for 2017/18 were announced on 15 December 2016 and reflect those expected in the efficiency plan. The government have also confirmed that funding levels for 2018/19 and 2019/20 will reflect the certainty amounts included within our efficiency plan. The final figures for 2017/18 will be confirmed in early February 2017.

For 2017/18 the level of revenue support grant will be £11,033k some £3,197k lower than the current year, this is a reduction of 22.5%. In addition, the Authority will retain 1% of national non-domestic rates (business rates) worth an estimated £6,480k and receive a top-up grant of £9,423k. In total, these amounts for business rates are 4.0% higher than the current year.

## SUMMARY OF GOVERNMENT FUNDING

The table below summarises government funding for 2017/18 in comparison with the current year:

Total Settlement Funding Level		2016/17	2017/18	Change	
		£'m	£'m	£m	%
Revenue Support Grant	£m	14.230	11.033	-3.197	-22.5%
Share of NNDR		6.534	6.480	-0.054	-0.8%
Top Up Grant		8.763	9.423	0.660	7.5%
NNDR Collection Account		-0.327	-0.476	-0.149	45.6%
<b>Total</b>		<b>29.200</b>	<b>26.460</b>	<b>-2.740</b>	<b>-9.4%</b>

## NATIONAL NON-DOMESTIC RATES

Within the overall amount of funding there is an element funded by the Authority's share (1%) of national non-domestic rates. For 2017/18, decisions by the government to extend relief for small businesses and other policy changes mean that £407k (£407k for 2016/17) of the business rates expected will be replaced by a government grant.

In addition, the government assumes that the Authority's share of national non-domestic rates from the billing authorities will be £6,480k for 2016/17. The exact amount may vary from this level, the Authority holds an earmarked reserve to manage this uncertainty, and it is proposed that the shortfall in the final level of billing authority sourced funding is managed through this reserve.

To help maximise the local share of national non-domestic rates the Authority has supported a pooling arrangements with the County Council and eight of the Essex district authorities. Under the pooling arrangements, a larger share of any gains in the level of these rates will be retained locally and apportioned within the pool. Because of this, it is estimated that the Authority will gain £120k in additional business rates.

## **COUNCIL TAX**

The Authority consulted in 2016 on future service change options associated with proposed changes in the rate of council tax. The preferred option agreed by the Authority in June 2016 included planned increases in Council Tax of 2% per annum. For 2017/18, the government has proposed 2% as the threshold of the increase in council tax that will require a referendum. This is subject to confirmation by Parliament in early February 2017. The proposed increase for the Authority of 1.99% is the highest allowed within this threshold.

The increase in council tax from the rate increase add £837k to the Authority's income. If the increase is not agreed then this will create a larger call on reserves in 2017/18 and the need for savings to be identified in future years in addition to the 2020 programme.

## **TAX BASE**

The position regarding the taxbase of the Authority remains strong with increases through better collection arrangements and growth. Work with the Billing Authorities has ensured that early figures for the taxbase have been provided to all precepting authorities. This is also supported by in-year monitoring of the progress in collection and an early assessment of the impact of changes to the billing authorities Council Tax support schemes.

The Authority has aligned itself with the County Council and the Police and Crime Commissioner and agreed with the billing authorities to share the precepting authorities' gains from technical changes in Council Tax with the billing authority.

The rate of growth in the taxbase has increased as the cautious approach adopted when council tax support was localised has worked through in higher collection rates. The figures for 2017/18 give a further increase of 1.8%.

## **COLLECTION ACCOUNT**

Initial figures for the Council Tax collection account show a positive balance of £846k. The Authority has an earmarked reserve to absorb any negative movement on the collection account fund, but there will be no call on this reserve in 2017/18.

## **PRECEPT AND IMPLICATIONS FOR COUNCIL TAX**

The table below sets out the calculations of the proposed council tax and show the changes from the 2016/17 budget.

	<b>2016/17 Budget</b>	<b>Council Tax 2017/18</b>	<b>Change</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Budget Requirement	71,304	70,113	(1,191)
<b>Sources of Finance</b>			
Revenue Support Grant	14,230	11,033	(3,197)
National Non-Domestic Rates	14,970	15,427	457
Total Grant	29,200	26,460	(2,740)
Collection Fund Surplus	880	846	(34)
Precept Requirement	41,224	42,807	1,583
Tax Base	609,102	620,121	11,019
<b>Council Tax (Band D)</b>	<b>£67.68</b>	<b>£69.03</b>	<b>£1.35</b>

The main changes from 2017/18 are the reduction in revenue support grant, offset by an increased taxbase and an increase in the precept. Just under half of the increase in the precept comes from the higher taxbase with the balance from the increase in council tax.

#### 2016/17 FORECAST REVENUE BUDGET POSITION

The forecast outturn has been reviewed to reflect the position at the end of November 2016, this forecast is summarised below and this position is reflected in the comparative figures used in this report.

<b>Description</b>	<b>2016-17 Budget £'000s</b>	<b>2016-17 Forecast £'000s</b>	<b>Forecast Variance £000's</b>
Firefighters	30,963	30,808	(156)
Firefighters - Retained Duty System Control	5,349	5,480	131
Support Staff	1,364	1,257	(108)
<b>Total Employment Costs</b>	<b>50,058</b>	<b>49,888</b>	<b>(170)</b>
Support Costs	5,005	4,832	(173)
Premises & Equipment	10,529	10,478	(51)
Other Costs & Services	3,736	4,058	322
Firefighters' Pension Scheme	2,097	2,114	17
Financing Items	7,585	3,798	(3,787)
Operational income	(3,894)	(3,864)	30
Contribution to/(from) Reserves	(3,812)	-	3,812
<b>Total Other Costs</b>	<b>21,246</b>	<b>21,416</b>	<b>170</b>
<b>Total Budget</b>	<b>71,304</b>	<b>71,304</b>	<b>0</b>
<b>Total Funding</b>	<b>(71,304)</b>	<b>(71,304)</b>	<b>-</b>

The forecast variance is reported against the revised budget. The forecast includes £263k of higher legal costs, with savings across other budget headings. The main feature of the forecast is the use of £3.7m of the capital receipts reserve to reduce the capital financing charge, this replaces the budgeted use of the general reserve. This is the same approach that was adopted in 2015/16.

## **RESERVES**

At 31 March 2016, the Authority had £12.2m of usable reserves. Capital receipts in 2016/17 have increased these reserves by £8.5m. Decisions by the Fire Authority to support early exit options mean there is a forecast reduction in 2016/17 of £3.7m leaving a year end forecast of £17.0m of usable reserves at 31 March 2017.

The report from the Treasurer (Appendix 1) reviews these factors for 2017/18 onwards including the review periods for the earmarked reserves. No changes to the ear-marked reserves are proposed, but £648k of the spend to save reserve will be used to balance the early payment of the pension deficit for the years 2018/19 and 2019/20. The balance of the shortfall in the budget for 2017/18 will be met through a reduction in the capital financing charge and the use of the capital receipts reserve to replace this charge. This will reduce the capital receipts reserve by £1,361k in 2017/18.

The 2017/18 budget represents a transitional period in the move towards a balanced budget for 2020 forwards. The potential for future savings in the costs of enabling services and property through collaboration and integration with the police remains, but the timing of these savings is not in the direct control of the Authority.

## **2017/18 BUDGET**

The budget for 2017/18 has been drawn up reflecting the key decisions made by the Authority. The budget supports the Corporate Strategy and departmental budgets reflect the departmental activities in support of the overall strategy. The plans demonstrate the achievement of a balanced budget by 2020, but utilise existing reserves in the year.

The budget for 2017/18 is summarised below and compared to the most recent forecast for 2016/17.

Description	2016-17 Budget £'000s	2016-17 Forecast £'000s	2017-18 Budget £'000s
Firefighters	30,963	30,808	28,849
Firefighters - Retained Duty System	5,349	5,480	6,086
Control	1,364	1,257	1,382
Support Staff	12,381	12,343	13,209
<b>Total Employment Costs</b>	<b>50,058</b>	<b>49,888</b>	<b>49,526</b>
Support Costs	5,005	4,832	1,854
Premises & Equipment	10,529	10,478	10,474
Other Costs & Services	3,736	4,058	3,711
Firefighters' Pension Scheme	2,097	2,114	2,118
Financing Items	7,585	3,798	6,145
Operational income	(3,894)	(3,864)	(3,781)
Contribution to/(from) Reserves	(3,812)	-	67
<b>Total Other Costs</b>	<b>21,246</b>	<b>21,416</b>	<b>20,587</b>
<b>Total Budget</b>	<b>71,304</b>	<b>71,304</b>	<b>70,113</b>
<b>Total Funding</b>	<b>(71,304)</b>	<b>(71,304)</b>	<b>(70,113)</b>

The overall contribution to reserves of £67k comprises:

- Inflation provision of £715k (contribution to reserves); and
- Use of £648k of the spend to save reserve to fund early payment of the LGPS pension scheme deficit contribution for 2018/19 and 2019/20.

## STAFF NUMBERS

Overall staff numbers are summarised below:

Staff Budget (Average)	2016/17 Budget	Changes	2017/18 Budget
Wholetime Firefighters	695	-75	620
On-Call (Retained) Firefighters	519	-	519
Control Staff	33	-	33
Support Staff - Employees	279	-39	240
Support Staff - Temporary & Agency	-	36	36
<b>Total</b>	<b>1,526</b>	<b>-78</b>	<b>1,448</b>

## WHOLETIME FIREFIGHTERS

Employment costs equate to over 70% of the Authority's total revenue budget, with the numbers of firefighters employed the most significant element. The budget reflects a continued standstill in terms of recruitment with a reduction in firefighter roles as staff retire. This budget reflects some changes in the management of stations but does not anticipate the outcome of the rank to role work to be carried out in early 2017.

The average numbers of wholetime firefighters in 2017/18 by role are set out below:

<b>Firefighter Budget (Pay Grades are shown in brackets)</b>	<b>2016/17 Budget</b>	<b>Changes</b>	<b>2017/18 Budget</b>
Chief, Deputy Chief & Assistant Chief Fire Officers (Brigade Managers)	4	-2	2
Senior Divisional Officers (Area Manager B)	6	-2	4
Divisional Officers (Group Manager B)	17	-5	12
Assistant Divisional Officers (Station Managers B)	34	0	34
Flexi Station Officers (Station Managers A)	2	5	7
Station Officer (Watch Managers B)	64	-8	56
Sub-Officer (Watch Managers A)	98	-37	61
Leading Firefighters (Crew Managers)	101	-2	99
Firefighters	369	-24	345
Additional crewing cover	0	13	13
<b>Total</b>	<b>695</b>	<b>-62</b>	<b>633</b>

### **ON-CALL (RETAINED) FIREFIGHTERS**

The numbers of on-call firefighters has only been budgeted on a head count basis as changes to availability bandings are currently being consulted on. The projection of numbers are shown in the table below:

<b>Actual at 30/11/16</b>	<b>31/03/2017</b>	<b>31/03/2018</b>	<b>Average 2017/18</b>
474	484	554	519

The on-call firefighters' project has reached delivery stage and is a key element of the changes agreed for 2020. There has been some early success in recruitment at new locations such as Clacton and the consultation on amended availability bandings will conclude in early 2017. These changes bring forward planned increases in expenditure for on-call firefighters expected in 2018/19 onwards, with an additional £0.7m of spend in 2017/18. The budgeted number for 2017/18 reflects an increase from the 474 on-call firefighters at the end of November with the impact of increased recruitment and lower staff turnover.

The main costs for on-call firefighters are for their utilisation, rather than headcount. The on-call pay budget reflect the actual levels of activity over the last 12 months and makes no allowance for any abnormal activity levels such as flooding, prolonged summer drought or strikes. An earmarked reserves exists should significant unforeseen activity be undertaken.

### **CONTROL STAFF**

The budget for control staff reflects resources to cover vacancies, maternity leave and training so that we are able to maintain full staffing. The average number of staff budgeted (33) for reflects the current staffing position following the successful implementation of the new mobilising system at Kelvedon Park.

### **SUPPORT STAFF CHANGES**

For support staff the high turnover rate for some staff groups, and the uncertainty over the timescale for collaboration across enabling functions with Essex Police means that £0.5m of

future savings reflected in the medium term financial plans have not been included in the budget for 2017/18. This is because, although these savings are expected from future collaboration and integration activities the timing of their delivery falls outside of the direct control of service managers. In addition, the balance between permanent roles in contrast to temporary and agency staff has been explicitly reflected in the budget to reflect the current vacancy levels.

Provision has been made for £0.4m of additional costs for community safety activities in the year using support staff roles. The exact departmental allocation of resources is still under discussion.

## **STAFF COSTS**

In addition to the numbers of staff employed, a number of other elements influence the overall employment costs. These are discussed in the sections below.

## **RESILIENCE AGREEMENTS**

The budgets for firefighter and on-call firefighter pay include a specific provision of £370k for resilience agreements. Firefighters who had agreed to these agreements have provided crewing for the appliances deployed during the periods of industrial action undertaken by the Fire Brigades Union.

## **PAY**

The budget for firefighter pay includes additional expenditure on overtime where out-duties are worked, including the payment of allowances for pre-arranged out-duties.

As in recent years, the budget makes no specific provision for pay inflation this year. The full year impact of the increase for firefighters agreed in July 2016 is included within the budget. As in recent years, it is proposed that as part of the budget monitoring process authority is delegated to the Finance Director & Treasurer to authorise virements to reflect national pay settlements and virements for inflationary pressures. For the purposes of the budget, the provision of £715k for inflation has been included as a contribution to reserves.

## **PENSION SCHEMES**

### **FIREFIGHTER PENSION SCHEMES**

There were significant changes in the pension schemes for firefighters in 2015. The next change in contribution rates is expected to be in April 2018.

The Authority is required to budget for lump sum charges arising from the ill-health retirement of firefighters. These costs can be spread over three years, starting in the year in which the ill-health retirement occurs. In addition, the Authority has to fund the cost of the residual amount of injury scheme payments previously included in the pensions budget. The pension injury payments increase in line with inflation and represent a considerable burden for the Authority. The budget for 2016/17 is £1,988k. The level of ill-health retirements has fallen considerably in recent years, and provision has been made for one such retirement in 2017/18. There has been no decision from the government about the recovery of pension injury payments from 2006 to 2013 and the accounting provision for these costs remains in the Authority's balance sheet.

### **LOCAL GOVERNMENT PENSION SCHEME**

There was an actuarial review of the local government pension scheme as at 31 March 2016 and this has resulted in an increase in the employers' contribution rate from 13.9% to 16.2%.

In addition to the on-going contribution rate the Authority is also making contributions for the past service deficit in the fund. For the annual deficit payment there is a saving of £50k for the Authority by making a single deficit payment in 2017/18 for the three years to the next valuation date. This results in an increased charge of £648k in 2017/18 that will be funded through the 'spend to save' reserve, with an offsetting contribution to the reserve in 2018/19 and 2019/20.

### **EMPLOYERS NATIONAL INSURANCE CONTRIBUTIONS & APPRENTICESHIP LEVY**

The budget makes provision for the rates of employers National Insurance contributions and the new apprenticeship levy introduced from 1 April 2017. The change has increased costs by £300k in 2017/18.

### **INFLATION**

Some specific allowances are included within the budget bids for expected inflationary increases in business rates, utilities and fuel and for higher supplier prices for property related costs. Budget holders have absorbed other inflationary pressures.

### **NON-STAFF COSTS & COLLABORATION SAVINGS**

For non-staffing costs, the budget is derived from the outturn expenditure for 2016/17 "normalised" to exclude the impact of any non-recurring expenditure. This base figure has then been adjusted for efficiency gains and to reflect the impact of specific changes planned for the next year. Overall the budget has in effect been cash limited to the 2016/17 level.

The budget process was carried out in conjunction with the 2017/18 business planning process so that the financial plans for the year and the departmental business plans were developed in parallel.

The draft business case produced by the Police and Crime Commissioner identifies the potential for savings across a range of enabling services. The budget proposed does not include any of these savings because their delivery is outside the direct control of Officers. These include the benefits from shared accommodation, merging of enabling functions etc. The delivery of these savings needs to ensure that benefits are realised by all parties to the existing joint arrangements in place for Essex Police and the Fire Authority.

### **RISK PROTECTION**

The Authority's risk protection arrangements are provided through the Fire and Rescue Indemnity Company Ltd (FRIC) in a risk sharing arrangement with eight other Fire and Rescue Authorities. These arrangements have been live for over one year and contributions to FRIC are in line with the insurance premiums paid in the previous year.

### **REVENUE BUDGET PROVISION FOR CAPITAL FINANCING**

The Authority is required to make a statutory provision to fund capital expenditure from council tax. This provision is based on the historic cost depreciation charge for the assets that are purchased. The level of the provision reflects both past capital expenditure, the forecast expenditure in 2016/17 and the planned capital budget for 2017/18.

This charge has then been reduced by £1.4m to reflect the use of the capital receipts reserve as the means of balancing the 2017/18 budget.

## INCOME

The budget reflects a realistic assessment of income from a range of sources including aerial sites for telephony, re-charges to EFA trading etc. These are analysed in the table below:

Description	2016-17 Budget £'000s	2016-17 Forecast £'000s	2017-18 Budget £'000s
Government Grants	(1,984)	(1,984)	(1,912)
Cycle to Work Scheme	(38)	(38)	(31)
Childcare Vouchers	(95)	(65)	(65)
Sales of Vehicles	(10)	(10)	-
Canteen Income	(91)	(91)	(85)
Sale of Vehicle Spares	(35)	(35)	(25)
Aerial Sites	(122)	(122)	(122)
Solar Panel Income	(60)	(60)	(70)
Hydrant Tests	(80)	(80)	(80)
Lease Cars - Employee Contributions	(87)	(87)	(40)
General Sales	(5)	(5)	(1)
Service Charges	(9)	(9)	(9)
Secondments	(55)	(55)	(38)
Labour Credit	(60)	(60)	(60)
Section 13/16	(45)	(45)	(50)
Provision of Hire Vehicles & Equipment	-	-	(12)
Interest on short term lending	(65)	(65)	(65)
Community Fire Safety	(300)	(300)	(360)
Reimbursements from EFA(T)	(62)	(62)	(70)
Other Miscellaneous Income	(147)	(147)	(143)
Emergency Planning Income	(543)	(543)	(543)
<b>Total Income</b>	<b>(3,894)</b>	<b>(3,864)</b>	<b>(3,781)</b>

*1- Note figures may not sum due to rounding differences*

Some of the income changes are entirely offset by a change in the Authority's costs, for example the Emergency Planning Income from Essex County Council. The most significant changes are for Community Fire Safety where we are expecting higher funding for schemes such as Firebreak and the lower income for secondments.

## CAPITAL PROGRAMME 2017/18 – 2019/20

The affordability of the overall capital programme remains a key factor for the Authority in the next few years. Only if the overall capital programme can deliver financial benefits to offset the additional revenue burden of its financing costs will the projects outlined in this section be initiated. Most significant projects already require Member approval before they can be initiated. All projects coming forward for approval will be required to demonstrate how the financing costs will be met and whether this will be from efficiencies generated by the project or from other areas.

The proposed budget only includes either projects that are approved or an advanced stage in the approval and procurement process. The most significant projects are the purchase of new pumping appliances and the completion of the new mobilising system. The proposed budget is summarised in the table below:

	Forecast 2016/17 £'000s	Capital Bid 2017/18 £'000s	Capital Bid 2018/19 £'000s	Capital Bid 2019/20 £'000s	Capital Bid 2020/21 £'000s
<b>Property</b>					
New Premises					
Service Workshops	400	3,500	3,000	4,000	2,000
Existing Premises					
Solar Panels	100	-	-	-	-
Asset Protection	1,700	2,500	2,000	2,000	2,000
Asset Improvement Works	-	-	-	-	-
<b>Total Property</b>	<b>2,200</b>	<b>6,000</b>	<b>5,000</b>	<b>6,000</b>	<b>4,000</b>
<b>Equipment</b>	<b>598</b>	<b>605</b>	<b>288</b>	<b>10</b>	<b>-</b>
<b>Information Technology</b>					
Projects > £250k	-	2,100	400	-	-
Projects < £250k	645	300	100	100	-
<b>Total Information Technology</b>	<b>645</b>	<b>2,400</b>	<b>500</b>	<b>100</b>	<b>-</b>
<b>Vehicles</b>					
New Appliances	2,503	2,060	2,060	1,854	-
Other Vehicles	273	825	1,471	317	281
<b>Total Vehicles</b>	<b>2,776</b>	<b>2,885</b>	<b>3,531</b>	<b>2,171</b>	<b>281</b>
<b>Total Capital Expenditure</b>	<b>6,219</b>	<b>11,890</b>	<b>9,319</b>	<b>8,281</b>	<b>4,281</b>

The budget includes provision for a replacement to the Service Workshops. The Policy & Strategy Committee agreed to pause this project in November 2016 until there was clarification around the potential for utilising space at Kelvedon Park to accommodate Essex Police, and there was clarity around the potential for the development of a joint workshop facility with the Police. The budget does include a small number of ICT projects where there is not yet a confirmed business case. In all cases the approval process for these projects will require Member approval under the Financial Regulations.

## CAPITAL RECEIPTS AND CAPITAL GRANTS

No material capital receipts are expected in 2017/18. Proposals for the options for the disposal of housing associated with day crewed fire stations will be brought to Members in 2017.

The government have not indicated that there will be any transformation funding or capital grants available in 2017/18.

## FUNDING CAPITAL EXPENDITURE

The cash generated from the proposed income and expenditure budget is £5.9m with the balance of funding coming from the Authority's cash balances carried forward from 2016/17. There is no repayment of PWLB loans in the year, with a balance of £28m of loans due for repayment in future years, against an asset base of £111m at 31 March 2016. After these changes, the Authority will still have around £9m of usable cash balances at March 2017.

## LEGAL IMPLICATIONS

The Local Government Act 2003 gives the Treasurer (Section 151 Officer) a responsibility to report to Members of the Authority on his assessment of the robustness of the estimates used within the budget, and on the adequacy of reserves. Members must have regard to the Treasurer's report before the full Authority approves the budget for 2017/18.

The Authority is also required to consider and set the capital financing indicators for the period 2017/18. A separate report on this will be submitted to the Fire Authority.

## RISK MANAGEMENT IMPLICATIONS

These are covered in the separate report from the Treasurer to Members of the Authority appended to this paper.

## FINANCIAL IMPLICATIONS

The financial implications are set out in the report.

## EQUALITIES IMPLICATIONS

The budget is designed to provide resources to enable the Authority to carry out its duties in accordance with all statutory requirements. It provides the resources to enable the Authority to meet its equality duties and of itself has no direct equality implications.

## USE OF RESOURCES

The use of resources assessment looks at how financial management is integrated with strategy and corporate management, supports Fire Service priorities and delivers value for money. The longer-term financial implications of the plans (including the planned level of capital expenditure) have been assessed and are summarised in the paper.

The budget for the Authority is closely linked to the overall Service business plan. At the same time that budget managers prepared estimates of expenditure they were also required to submit departmental plans identifying activities linked to the strategic priorities of the Authority. Subsequent review and amendment to the budget are reflected in revisions to the plans.

The budget recognises that decisions on some key aspects have yet to be made, but is explicit about the financial provision and assumptions made. The revenue and capital budgets are interlinked, and reflect the aim of finding resources to do more, and using the resources on what matters.

The balance between spending and resources is assessed. The budget proposes options for a council tax increase and reflects the impacts of decisions that have been made to ensure that the Authority is able to achieve a balanced budget over the spending review period.

The budget setting process is an important part of the review arrangements by the Members for a range of criteria. The arrangements that have or will be made to ensure that the budget will help the Authority manage and improve value for money are set out in the paper.

<b>LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985</b>	
<b>Appendices</b>	
Appendix 1 – Treasurer’s Report on 2017/18 Budget	
<b>List of background documents</b>	
Proper Officer:	Finance Director & Treasurer
Contact Officer:	Mike Clayton, Essex County Fire & Rescue Service, Kelvedon Park, Witham, Essex CM8 3Hb Tel 01376 576000 E-mail: <a href="mailto:mike.clayton@essex-fire.gov.uk">mike.clayton@essex-fire.gov.uk</a>

## **DRAFT REPORT BY THE TREASURER TO THE ESSEX FIRE AUTHORITY**

This paper provides the report by the Treasurer required by Section 25 of the Local Government Act 2003. The purpose of this report is to provide a review of the risks within the 2017/18 budget:

### **INTRODUCTION**

The Local Government Act 2003 Section 25 includes a specific personal duty on the “Chief Finance Officer” to make a report to the Authority when it is considering its budget and Council Tax. The report must deal with the robustness of the estimates included within the budget and the adequacy of reserves for which the budget provides. The Act requires Members to have regard to the report in making their decisions.

Section 26 of the Act gives the Secretary of State power to set a minimum level of reserves for which an Authority must provide in setting its budget. The Secretary of State indicated that ‘the provisions are a fall back against the circumstances in which an Authority does not act prudently, disregards the advice of its Chief Finance Officer and is heading for serious financial difficulty’.

Sections 32 and 43 of the Local Government Finance Act 1992 also require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the net budget requirement. There is also a range of safeguards, which either are in place or are about to be introduced, to ensure local authorities do not over-commit themselves financially. These include:

1. The Chief Finance Officer’s S.114 powers, which require a report to all members of the Authority if there is or is likely to be unlawful expenditure or an unbalanced budget; and
2. The Capital Financing Regulations.

### **RISK ASSESSMENT**

#### **LOCAL GOVERNMENT ACT 2003**

The Local Government Act does not provide any specific guidance on how to evaluate the robustness of the estimates. The explanatory notes to the act do however identify the need to allow for risks and uncertainties that might lead to expenditure exceeding budget by:

1. Making prudent allowance in the estimates; and in addition
2. Ensuring that there are adequate reserves to draw on if the estimates turn out to be insufficient.

It is stressed that decisions on the appropriate level of reserves should not be based on a rule of thumb but on an assessment of all the circumstances considered likely to affect the Authority.

#### **CIPFA GUIDANCE NOTE ON LOCAL AUTHORITY RESERVES AND BALANCES**

The Chartered Institute of Public Finance Accountancy (CIPFA) states that the following factors should be taken into account when the Chief Finance Officer considers the overall level of reserves and balances:

1. Assumptions regarding inflation;
2. Estimates of the level and timing of capital receipts;
3. Treatment of demand led pressures;
4. Treatment of savings;
5. Risks inherent in any new partnerships etc.;

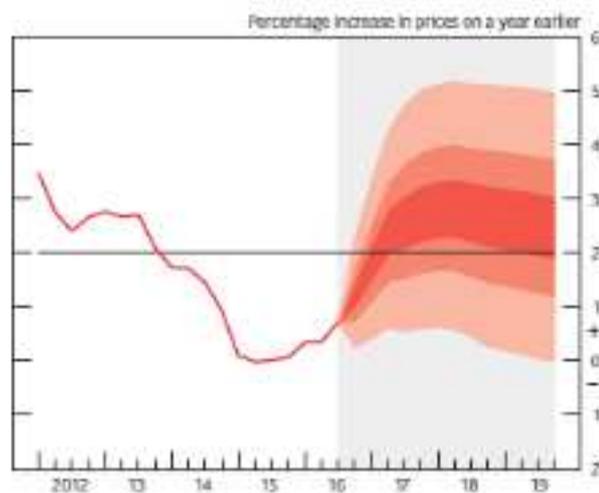
6. Financial standing of the Authority (i.e. level of borrowing, debt outstanding etc.);
7. The Authority's track record in budget management;
8. The Authority's capacity to manage in-year budget pressures;
9. The Authority's virements and year-end procedures in relation to under and overspends;
10. The adequacy of insurance arrangements.

The above are also of relevance when evaluating the robustness of the budget and the subsequent analysis includes comments on these issues.

## **ISSUES CONSIDERED WHEN EVALUATING THE ROBUSTNESS OF THE ESTIMATES AND THE ADEQUACY OF THE PROPOSED FINANCIAL RESERVES**

### **INFLATIONARY PRESSURES**

The background economic climate has a higher degree of uncertainty than in recent years with the Brexit vote and a higher degree of economic uncertainty. The outlook for inflation is above the 2% target set for the Bank of England. The Bank of England's November 2016 inflation forecast (CPI) is shown below:



A key element in the budget preparation process is building in an appropriate allowance for inflation up to 31 March 2018. This adjustment is known as the cash limit. It is inevitable that the cash limit will either over or under provide for the full cost of inflation as no-one knows exactly how prices will vary against the estimates made.

The budget assumes that fuel and utility prices remain low and no adjustments have been made to reflect price changes. No other specific allowances have been built into the budget for pay or price inflation. Instead, an overall inflation and contingency allowance of £715K has been used. If the requirement to increase cash budgets because of pay awards exceeds this provision then either offsetting savings will need to be found elsewhere in the budget, or the additional costs in 2017/18 will have to be funded from reserves. In most cases, Budget Managers absorb inflationary pressures within their departmental budgets.

To assess whether the inflation allowance is adequate it is necessary to consider the impact of both pay and non-pay inflation pressures. Firefighters accepted a 1% pay increase in 2016. One indication of the adequacy of the inflation provision is whether it would be sufficient for a similar increase. The same level of increase in 2016 across all firefighters would add £400k to the budget.

Government expectations are that public sector pay increases will continue to be limited over the next few years. Local government has already complied with government pressure, but future increases, perhaps linked to changes in the overall terms and conditions agreements are expected. The main pressure within local government is for the lowest paid staff and the move towards increasing the national living wage. These changes do not materially affect the Authority's pay bill.

The forecast for inflation is increasing with cost pressures associated with the decline in the exchange rate future economic uncertainty. There is a risk that external factors such as oil and commodity prices will flow through to the prices of goods purchased by the Authority. An overall 4% increase in such costs could add £500k to the Authorities costs. Existing contractual arrangements for key items including utilities and personal protective equipment means that price inflation will be limited to significantly less than this amount in 2017/18.

In summary, inflationary pressures remain a financial risk to the Authority's budget, but this is manageable within the overall context of the budget and level of General Balances. In addition there is potential for short term cost savings through restricting activity if necessary.

## **ESTIMATES ON THE LEVEL AND TIMING OF CAPITAL RECEIPTS**

There are no material capital receipts expected in 2017/18.

## **TREATMENT OF DEMAND LED PRESSURES**

The budget process has sought to identify and allow for demand led pressures. The main uncertainties relate to the following areas:-

### **1. Wholetime Duty System Firefighter Numbers**

The budget makes provision for an average of 633 wholetime firefighters in 2017/18. The staffing forecast reflects recent experience in the timing of retirement decisions by firefighters and the promotion of staff to other Services. If firefighters chose not to retire then there is a potential risk that firefighter numbers would exceed the budgeted number.

### **2. On-Call (Retained Duty System) Firefighters**

This budget has traditionally been difficult to estimate as factors such as extensive flooding and hot summers can have a significant impact on the hours worked by on-call firefighters. In addition, the use of these staff on a wider range of community safety and medical activities has increased the level of expenditure. The budget for 2017/18 reflects this level of activity.

Management controls enable the Authority to mitigate the risk and manage the level of expenditure, demand led pressure for operational activity could increase costs in this area. There is a specific earmarked reserve to manage any major increase in the costs of on-call firefighters with an allowance of £0.6m for any potential in-year budget pressures resulting from increased activity levels.

### **3. Other**

Other potential expenditure pressures could result from factors such as an unanticipated need for urgent replacement of operational equipment and a need to respond to nationally driven changes in operational procedures. Such factors are viewed by the Service as relatively low risks and while if they did materialise it could lead to additional expenditure of in the order of £0.3m, there would be some scope to meet such costs within the existing budget provision by re-prioritisation.

### **4. Industrial Action**

It should also be borne in mind that the Service is going through a time of change. At the time of writing this paper there are two disputes affecting the Authority. A national dispute around pensions and a local

dispute concerning the new shift arrangements for Control. There is potential for both of these to result in strike action. The present resilience arrangements have a fixed (and budgeted) cost of £0.4m. The implementation of these resilience arrangements costs depends on the nature of the strike action taken. To date such costs have been managed within the overall budget.

### **RISKS INHERENT IN PARTNERSHIP ARRANGEMENTS ETC**

The Authority is involved in a range of partnership arrangements mainly in the area of community safety. The financial risks from these partnerships could lead to lower levels of income and partnership funding. A partnership policy is in place, all partnerships are actively managed to mitigate this risk.

### **FINANCIAL STANDING OF THE AUTHORITY (LEVEL OF BORROWING, DEBT OUTSTANDING ETC.)**

This is becoming a less significant issue for the Authority. At 31 March 2016, the Authority had £28.0m of long term debt to fund capital expenditure and a further £0.3m of finance lease obligations. No additional borrowing is planned for 2017/18. Further significant capital spending is projected over the next few years. The revenue impact of the planned spend for 2017/18 is included within the budget, and the level of borrowing is within the limits set as part of the bi-annual review of capital financing.

At 31 December 2016, the cash balance is projected to be £20m. This includes £11m held to settle a potential liability to the government for firefighter injury payments.

### **THE AUTHORITY'S TRACK RECORD IN BUDGET MANAGEMENT, INCLUDING ITS ABILITY TO MANAGE IN-YEAR BUDGET PRESSURES**

The Authority has a proven track record in financial management and has been able to restrict expenditure to keep within the overall budget. An internal audit report in 2015 confirmed that the Fire Authority can take substantial assurance from the budgetary controls in place.

However, the discipline of Financial Regulations – not incurring spending without the necessary budget provision – must be rigidly observed and the monitoring of the riskier budgets must be given priority. It remains of paramount importance that regular reports continue to be produced on all budgets throughout the year to identify emerging problems at the earliest opportunity. This will allow maximum benefit to be accrued from any corrective action taken.

Incremental improvements to financial processes to ensure that all orders and commitments are captured have been made and an Authority wide Contracts Register is in place. There is a high degree of visibility in the level of financial commitments and expenditure for managers who control budgets and their Directors.

The Authority has managed to restrict expenditure in advance of the expected cuts in government funding and achieved significant efficiency savings over the past few years. We have an excellent track record in anticipating and preparing for significant change, and on delivering planned budget savings.

### **THE AUTHORITY'S VIREMENT AND YEAR-END PROCEDURES IN RELATION TO UNDER AND OVERSPENDS**

The Authority has embedded virement procedures that require senior approval to allow funds to be moved to areas of pressure. Budgeted expenditure is only transferred from one budget year to the next with the agreement of Members.

### **THE ADEQUACY OF RISK PROTECTION ARRANGEMENTS**

Current risk protection arrangements are through a company created in partnership with a consortium of nine fire and rescue authorities. The Authority is one of the larger Authorities in the group (along with Devon & Somerset, Hampshire and Kent) who bear the first part of each loss. These limits are £50k for

motor claims (own damage only), £25k for public and employers liability and £5k for property. In addition, the Authority maintains a provision for the value of unsettled and unknown claims. These arrangements have delivered significant savings to the Authority over recent years.

There is a potential risk that this will expose the Authority to an increase in costs if consortium members experience a high level of claims. To reflect this potential risk the level of reserves held for risk protection related costs has been set at £0.25m. This is the amount of a potential call on the Authority for funding for FRIC. The consortium continues to work together on benchmarking and improving risk management to help to mitigate this risk.

## PENSION LIABILITIES

### 1. Fire-fighters

The liability for firefighter pensions, whilst remaining with the Authority has been transferred to a separate account funded by government grants. The level of authority contributions remains unchanged in 2017/18.

### 2. Support staff

The Authority contributes to the Essex County Council Local Government Pension Fund in respect of its control and support staff, which are invested in order to meet its liability to provide for the benefits provided to past employees and future benefits for existing employees. The Fund is valued every three years with the most recent valuation based on the position as at 31 March 2016. The level of contributions by the Authority is fully reflected in the 2017/18 budget and these rates will be fixed until March 2020.

## RESERVES

The general reserves of the Authority were £6,859k on 1 April 2016. In addition there were ear marked reserves of £5,354k. In 2016/17 there have been additional capital receipts of £8,553k which are also a usable reserve. The present forecast suggests that the Authority has a net use of the capital receipts reserves of £3,701k in 2016/17. The budget for 2017/18 requires £648k of funding from the ear marked spend to save reserve and a balance of £1,361k from the capital receipts reserve.

## EARMARKED RESERVES

The Authority has established specific reserves to manage key financial risks. Movements between these specific reserves are determined by the Treasurer and reported to Members. The table below considers the specific reserves planned and the timetable for their review:

Specific Reserves	Comment & Review	March 2017 Balance £'000s	March 2018 Balance £'000s
Emergency Planning	To hold savings on the costs of Emergency Planning Reviewed annually with Essex County Council	428	428
On-Call Payroll – Demand Pressures	Main area of risk is retained pay budget. Need to provide £1.5m in case of in-year pressure Reserve at Maximum Limit – To be reviewed March 2015.	600	600

<b>Specific Reserves</b>	<b>Comment &amp; Review</b>	<b>March 2017 Balance £'000s</b>	<b>March 2018 Balance £'000s</b>
Spend to Save Reserve	Good track record of delivering savings. Provides the ability to fund a period of transition before savings are delivered. £250k allocated for sprinklers in 2015/16	976	328
Taxbase and Collection Account Reserve	Last shortfall in 2012/13. Since then average of over £500k favourable balance.	200	200
National Non-Domestic Rates Collection Reserve	Risk remains through pooling arrangements, but considered low.	200	200
Infrastructure Reserve	To support future capital expenditure on buildings. Planned increase to even out future capital spending	2,400	2,400
Rolling Budgets Reserve	To hold balances of expenditure carried forward into the next financial year.	0	0
Business Continuity Reserve	To provide funds for any business interruption event not covered through risk protection funding. Reduced to reflect participation in FRIC.	300	300
Risk Protection	Expected limit of calls from FRIC.	250	250
<b>Total</b>		<b>5,354</b>	<b>4,706</b>
<b>Capital Receipts Reserve</b>	Receipts from the sale of capital assets (property and vehicles). £1,361k used to balance 2017/18 budget.	<b>4,852</b>	<b>3,491</b>
<b>General Reserve</b>		<b>6,859</b>	<b>6,859</b>
<b>Total Usable Reserves</b>		<b>17,065</b>	<b>15,056</b>

The assessment of the general level of reserves takes into account the factors noted below:

Factor	Comment	Lower Limit	Upper Limit
Inflation and interest rates	The increase in the overall level of borrowing exposes the Authority to a degree of risk in the future if loans cannot be replaced at a similar interest rate. An increase of 2% on a loan of £20m would add £0.4m of costs equivalent to 0.6%	0.6%	1.5%

Factor	Comment	Lower Limit	Upper Limit
Level and timing of capital receipts	At present, the Authority is funding a significant capital programme with a gap before capital receipts will be realised. This risk is offset by high cash balances which eliminate the need for borrowing in 2017/18	0.2%	0.5%
Savings Track Record in Budget Management Capacity to Manage in Year Budget pressure	Good track record of delivering savings identified.	1.5%	5.0%
Partnerships	Increased risks associated with Community Budgets. Limited partnership funding of £0.2m pa	0.2%	1.0%
Financial Standing	Increasing level of borrowing limits future flexibility. Separate provision for future years.	0.5%	2.0%
<b>Total</b>		<b>3.0%</b>	<b>10.0%</b>

The lower limit of 3.0% of turnover equates to £2.1m and the upper limit of 10.0% of turnover equates to £7.0m. The Authority is close to the upper point of this range.

## CONCLUSION

Given the level of total usable reserves available in 2017/18 of £17.0m; the prudent approach to the budget setting process for next financial year; and the Authority's good past record of budget management, it is my conclusion that there is sufficient capacity in the budget to cope with the financial risks the Authority faces in 2017/18 and future years.

M Clayton  
Finance Director & Treasurer