

ESSEX FIRE AUTHORITY

Essex County Fire & Rescue Service



MEETING

**Audit Governance & Review
Committee**

AGENDA ITEM

9

MEETING DATE

21 January 2015

REPORT NUMBER

EFA/010/15

SUBJECT

Draft Budget for 2015-16

REPORT BY

The 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 options for the revenue and capital budgets for the Authority for 2015/16;
- Provide information on the budget and business planning process; and
- Provide the initial information on the formula grant settlement, share of national non-domestic rates, council taxbase and collection account for 2015/6.

The budget has been prepared showing figures for a Council Tax freeze as this is the option that the Authority has chosen in recent years. The Policy & Strategy Committee is asked to determine whether an option of an increase in Council Tax should be included in the budget submitted to the full Authority.

RECOMMENDATIONS

Members are asked to review the budget and agree the budget for submission to the full Authority:

	2014/15 Budget	2015/16 Council Tax Freeze Budget
Net Expenditure	£73,271k	£71,908k
Decrease from 2014/15		-£1,363k
Precept	£38,954k	£39,678k
Band D Council Tax	£66.42	£66.42
Increase from 2014/15		0.00%

1. A net expenditure budget of £71.908m (with a Council Tax Freeze);
2. A precept of £39.678m (with a Council Tax Freeze);
3. A Band D council tax of £66.42 (the same since 2010/11);
4. The bands of Council Tax are shown in the following table.

Council Tax Band	2015/16 No Increase
A	£44.28
B	£51.66
C	£59.04
D	£66.42
E	£81.18
F	£95.94
G	£110.70
H	£132.84

5. Capital expenditure budget of £8.175m in 2015/16.

LOCAL GOVERNMENT FINANCE SETTLEMENT

The provisional settlement figures for 2015/16 were announced on 18 December 2014. The final figures will be confirmed in early February 2014. [The figures in this report use the provisional figures provided with the 2014/15 settlement.]

For 2015/16 the level of grant, including past years council tax freeze grant will be £31,515k some £2,800k lower than the current year, this is a reduction of 8.2%.

SUMMARY OF GOVERNMENT FUNDING

From 2015/16 the allocation of Revenue Support Grant to local authorities will be calculated by increasing, decreasing, or maintaining ("scaling") the 2014/15 allocations in line with the level of that year's Revenue Support Grant. Revenue Support Grant will be equal to the local government spending control total less the holdback and the uprated baseline funding level in 2014/15. Note, that the 2014/15 budget excluded the compensation for government imposed rebates to national non-domestic rates as this was not announced until after the budget had been approved.

The table below summarises government funding for 2015/16 in comparison with the current year:

	2014/15	2015/16			Change in Total Settlement Funding Level £m
	Total Settlement Funding Level £m	Revenue Support Grant £m	Baseline Funding Level (Business Rates) £m	Total Settlement Funding Level £m	
Fire and Rescue Funding	32.310	14.871	14.669	29.540	-2.770
2011-12 CT Freeze Compensation	1.068	0.618	0.449	1.067	-0.001
2013-14 CT Freeze Compensation	0.433	0.433		0.433	0.000
2014-15 CT Freeze Compensation		0.433		0.433	0.433
NNDR Rebate Compensation	0.465			0.000	-0.465
Returned Funding	0.039	0.008		0.042	0.003
Total	34.315	16.363	15.118	31.515	-2.800

NATIONAL NON-DOMESTIC RATES

Within the overall amount of funding there is an element funded by the Authorities share (1%) of national non-domestic rates. For 2014/15 decisions by the government to extend relief for small businesses and other policy changes mean that a proportion (£465k for 2014/15) of the business rates expected were replaced by a government grant. The exact implications of this policy for 2015/16 are unclear. The Authority holds an earmarked reserve to manage this uncertainty and it is proposed that any shortfall or surplus in the announced level of government funding is managed through this reserve.

COUNCIL TAX

Since 2011/12 the Authority accepted a government grant to freeze Council Tax. With the exception of the grant for 2012/13 all of these grants are now included in our baseline government funding. In addition there is a commitment that any freeze grants taken in future years will also be included in the baseline.

The longer term impact of a freeze in Council Tax is a lower level of precept income in future years. If the freeze continued until 2018/19 then this income would be £1.5m lower in comparison to an increase in the precept of 2% per annum, the increase allowed in 2014/15 before a local referendum is required. This is a relevant consideration because we expect to see a reduction in our government grant funding in 2015/16 and subsequent years.

For 2015/16 the government has announced 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 2015. Should the Authority propose to increase council tax by an amount that will prompt a referendum then it has to consider whether it will bear any costs through doing so, and what the re-billing costs will be from the 14 billing authorities. It is estimated that a referendum could cost between £1.7m and £2.4m. It should also be noted that the regulations only allow the percentage increase to be included in the referendum, not the cash amount for different householders.

For the purposes of this report figures have been presented showing the position with a council tax freeze. Members of the Policy & Strategy Committee are asked to determine what options should be taken forward to the Authority.

TAX BASE

The position regarding the taxbase of the Authority has been uncertain in recent years. 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.

Since 2013/14 the Authority has aligned itself with the County Council and the Police and Crime Commissioner and agreed with the billing authorities to share 25% of the precepting authorities gains from technical changes in Council Tax with the billing authority. The Authority will continue to support these arrangements in 2015/16.

In 2014/5 there was a significant (1.9%) growth in the taxbase following a cautious approach on the level of council tax income in the previous year. The figures for 2015/16 give a further increase of 1.8% reflecting greater confidence in collection rates and housing growth.

COLLECTION ACCOUNT

Initial figures for the Council Tax collection account show a positive balance of £715k. In 2012/13 an earmarked reserve of £1m was established to absorb any negative movement on the collection account fund. This reserve is considered sufficient for future years at this level and so the additional funding has been included in the 2015/16 budget.

2014/15 FORECAST REVENUE BUDGET POSITION

The outturn position for 2014/15 will be subject to a separate paper to the Policy & Strategy Committee. The forecast outturn has been reviewed to reflect the position at the end of November 2014, this forecast is summarised below and this position is reflected in the comparative figures used in this report.

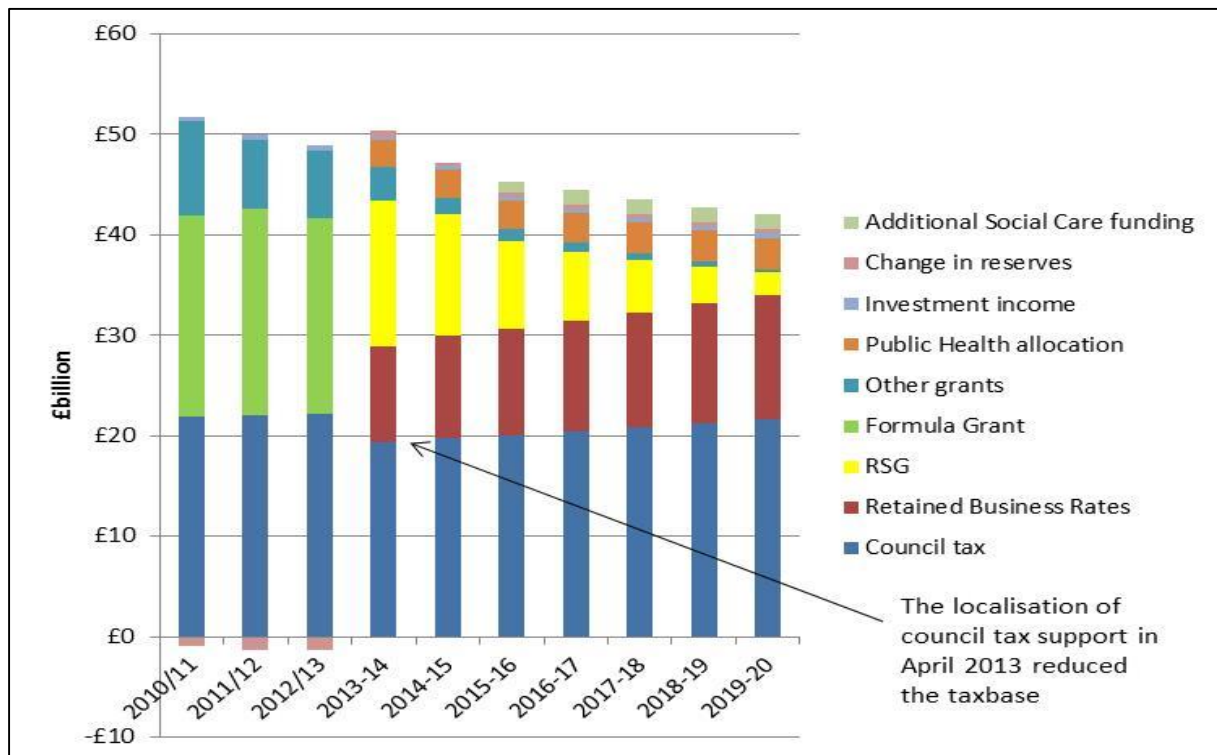
Description	Forecast Variance to	
	2014/15 Forecast £'000s	Budget £'000s
Firefighters	34,670	(1,578)
Firefighters - Retained Duty System	5,502	(234)
Control	1,686	33
Support Staff	11,083	(46)
Total Employment Costs	52,942	(1,824)
Support Costs	2,124	(58)
Premises & Equipment	10,527	373
Other Costs & Services	3,136	(388)
Firefighters' Pension Scheme	1,937	1,736
Financing Items	8,726	80
Operational income	(4,225)	(163)
Contribution to/(from) Reserves	(1,807)	368
Total Other Costs	20,418	1,949
Total Budget	73,360	124
Total Funding	(73,770)	(499)
Funding Gap / (Surplus)	(409)	(374)

The main features of the forecast remain continued underspending on firefighters as a result of the lower headcount, and a lower take-up of the opportunities for rota day working. .

BUDGET TRENDS

Since the Committee considered the medium term financial projections in September 2014 further information has become available around future levels of funding. The Local

Government Association have identified significant reductions in the overall level of revenue support grant for all local authorities. Their predictions are shown below:



Source: LGA's Future Funding Outlook 2014 - outturn data to 2012/13, budget data 2013/14. 2014/15 and 2015/16 based on settlement, 2016/17-2019/20 from LGA projections

Following the Chancellor's Autumn Statement on 3 December 2014 other commentators have suggested that the scale of government funding cuts will be greater in the next five years than they have been in the previous five. This suggests that the scale of savings needed by the Authority will be greater than those reflected in the Medium Term Financial Projections. Initial indications are that savings of £15M could be needed by 2020. This position will not become clear until after the 2015 general election as there are differences in the approach from the main political parties.

RESERVES

At 31 March 2014 the Authority had £9.9m in earmarked reserves and £2.6m in its general reserve. The general reserve represents 3.6% of planned expenditure in 2015/16 and is at the lower end of the Authority's target range. Any net savings in 2014/15 will be available to increase the level of the general reserve if this is judged necessary after a review of the earmarked reserves in March 2015.

The report from the Treasurer (Appendix 1) reviews these factors for 2015/16 onwards including the review periods for the earmarked reserves. Any additional reserves not required after this can be applied to reduce the outstanding capital financing requirement which will reduce the revenue burden in future years of past capital expenditure.

The budget makes provision for the use of £250k of the Authority's "spend to save" reserve in line with the decision made in September 2013 to use this resource to support the installation of sprinklers.

2015/16 BUDGET

The budget for 2015/16 has been drawn up reflecting the key decisions made by the Authority. The budget supports the Corporate Strategy and departmental budgets also reflect the departmental activities in support of the overall strategy. The plans demonstrate the achievement of a balanced budget.

The budget for 2015/16 is summarised below and compared to the most recent forecast for 2014/15.

Description	2014/15 Budget £'000s	2014/15 Forecast £'000s	2015/16 Budget £'000s
Firefighters	36,248	34,670	33,338
Firefighters - Retained Duty System	5,736	5,502	5,208
Control	1,653	1,686	1,401
Support Staff	11,129	11,083	10,511
Total Employment Costs	54,766	52,942	50,459
Support Costs	2,182	2,124	1,993
Premises & Equipment	10,154	10,527	10,151
Other Costs & Services	3,524	3,136	3,271
Firefighters' Pension Scheme	201	1,937	2,000
Financing Items	8,646	8,726	7,588
Operational income	(4,062)	(4,225)	(3,897)
Contribution to/(from) Reserves	(2,175)	(1,807)	345
Total Other Costs	18,470	20,418	21,449
Total Budget	73,236	73,360	71,908
Total Funding	(73,271)	(73,770)	(71,908)
Funding Gap / (Surplus)	(35)	(409)	(0)

STAFF NUMBERS

Overall staff numbers are summarised below:

Staff Budget	2014/15	Changes	2015/16
Wholetime Firefighters	771	-38	733
Strategic Crewing Reserve	44	-44	-
On-Call (Retained) Firefighters	514	-	514
Control Staff	44	-10	34
Support Staff	267	-2	265
Total	1,640	-94	1,546

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 the decision made in May 2014 to change the crewing arrangements following the removal of rescue tenders, with the final two fire stations expected to change in June 2015. The budget provides for an average of 44 of these posts are budgeted through the strategic crewing reserve which provides the funding for the coverage of shifts through rota day working and mixed crewing using on-call firefighters. The budget provides for these posts and for a further 159 posts in areas such as training, community safety and resilience. The total number of officer posts reflects the requirements for command and control of incidents based on current planning scenarios.

The average numbers of wholetime firefighters in 2015/16 by role are set out below:

Firefighter Budget (Pay Grades are shown in brackets)	2014/15 Budget	Changes	2015/16 Budget
Chief, Deputy Chief & Assistant Chief Fire Officers (Brigade Managers)	4	0	4
Senior Divisional Officers (Area Managers)	7	0	7
Divisional Officers (Group Managers)	15	2	17
Assistant Divisional Officers (Station Managers B)	32	2	34
Flexi Station Officers (Station Managers A)	10	-4	6
Station Officer (Watch Managers B)	56	-1	55
Sub-Officer (Watch Managers A)	96	-3	93
Leading Firefightes (Crew Managers)	102	-10	92
Firefighters	449	-24	425
Firefighters - Strategic Crewing Reserve	44	-44	0
Total	815	-82	733

ON-CALL (RETAINED) FIREFIGHTERS

The numbers of retained firefighters and the full time equivalent (based on 120hrs per week cover) are summarised below:

Retained Firefighters	2014/15	Changes	2015/16
Head Count	514	0	514
Full Time (120hrs) Equivalent	406	0	406

Recruitment of retained firefighters continues across the county to fill vacancies that arise through normal staff turnover. The budgeted numbers reflect a 10% shortfall in the FTE number compared to the overall target for retained fire stations. The main costs for retained firefighters is for their utilisation, rather than headcount. The retained 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 or prolonged summer drought. A specific earmarked reserve is maintained for such eventualities.

It is expected that the numbers of retained firefighters will increase as the recommendations from the retained duty systems review are implemented.

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 (34) for reflects a saving of 10 posts from the implementation of the new mobilising system at Kelvedon Park in early 2015.

SUPPORT STAFF CHANGES

For support staff the budget is derived from a review of the organisational departmental structure with the use of managed vacancies. The support staff budget full time equivalent number is 265 next year after allowing for the vacancy factor of 7% (the same vacancy factor was applied for the 2014/15 budget) with a planned reduction to 259 by the end of the year. The number (full time equivalent) budgeted for 2014/14 was 267 (after virements); there is therefore a reduction of 7 posts by the year end. Longer term plans to reduce overall support staff costs by £1m by 2016/17 are not reflected in the budget because the timing of changes have not been agreed. As changes are brought forward the budget will be reduced. Monitoring of the change programme will be through 6 monthly reports to the Audit, Governance and Review Committee.

Support Staff Changes by Department	2014/15	Changes	Average 2015/16	Year End Changes from 2014/15	2015/16 Final Position
Community Commands	29.3	-2.1	27.2	-7.2	22.1
Strategic Management Board	8.4	0.0	8.4	0.0	8.4
Operations	3.9	1.7	5.6	1.7	5.6
Corporate Comms	6.5	1.0	7.5	1.0	7.5
Performance & Data Management	7.4	1.4	8.8	1.0	8.4
Community Safety	22.7	1.1	23.8	1.1	23.8
Workplace Fire Safety	10.1	-1.2	8.9	-1.2	8.9
Health & Safety	5.1	-1.0	4.1	-1.0	4.1
Training	19.9	-6.4	13.5	-6.4	13.5
Fleet & Equipment	44.2	-3.9	40.3	-3.9	40.3
Finance & Pay	11.0	3.1	14.1	3.1	14.1
Purchase & Supply	18.6	-4.8	13.8	-4.8	13.8
Property & Water Services	21.3	0.2	21.5	0.2	21.5
Human Resources	28.1	0.8	28.9	0.8	28.9
Information Communications Technology	21.5	0.4	21.9	0.4	21.9
Other Departments & Seconded Posts	4.9	-0.1	4.8	-0.1	4.8
Emergency Planning (ECC)	10.8	1.0	11.8	1.0	11.8
Total	273.7	-8.8	264.9	-14.4	259.3

The main changes are::

- 7 posts removed from Community Commands after completion of the MIS replacement programme;
- 6 posts removed from HR and Training at the conclusion of the workforce transformation programme;
- 5 posts removed from Catering, Purchasing and Supply; and
- Additional temporary posts in Finance and HR to support the interim management and development of the HR and Payroll system

STAFF COSTS

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

RESILIENCE AGREEMENTS

The budgets for firefighter and retained firefighter pay include a specific provision of £300k 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 as part of a national dispute since the autumn of 2013.

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. For support staff a pay deal agreed in 2014 remains in place until March 2016. For uniformed staff an allowance for pay has been included in the overall inflation provision of £595k. Should national pay settlements exceed this level then it is expected that offsetting savings will be found within the overall budget.

The full year impact of the increase for firefighters agreed in 2014 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 also virements for inflationary pressures. For the purposes of the budget the provision of £595k for inflation has been included as a contribution to reserves.

PENSION SCHEMES

FIREFIGHTER PENSION SCHEMES

There are significant changes in the pension schemes for firefighters in 2015. A new pension scheme will be in place, with older firefighters remaining protected within the existing schemes. The main impact of the changes is an increase in the employment costs of retained firefighters, many of these firefighters move into the new 2015 scheme with higher employer contributions than the 2006 scheme. This higher costs is offset by a reduction in employer contribution rates for wholtime firefighters who move from the 1992 scheme into the 2006 scheme.

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 2015/16 is £1,950k, there has been one additional injury award made in the year. The level of ill-health retirements has fallen considerably in recent years, and provision has been made for 1 such retirement in 2015/16.

LOCAL GOVERNMENT PENSION SCHEME

The last actuarial review of the local government pension scheme as at 31 March 2013 resulted in an increase in the employers' contribution rate to 13.9% and an annual deficit contribution of £401k.

EMPLOYERS NATIONAL INSURANCE CONTRIBUTIONS

The budget makes provision for the current level of employers National Insurance contributions. The main rates remain unchanged in 2015/16.

INFLATION

Some specific allowances have been made within the budget bids for expected inflationary increases in business rates, utilities and fuel and for higher supplier prices for property related costs. Other inflationary pressures have been absorbed by budget holders.

NON-STAFF COSTS

For non-staffing costs the budget has been based on the outturn expenditure for 2014/15 “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.

All departmental budgets were submitted with a statement showing the activities being undertaken in support of the corporate strategy. The budget process was carried out in conjunction with the 2015/16 business planning process so that the financial plans for the year and the departmental business plans were developed in parallel. Departmental budgets and business plans were subject to reviews by the Strategic Management Board.

Significant savings have been made across a range of non-staff costs in recent years. These have been achieved through the following actions:

- Procurement – Often in collaboration with other local authorities and other fire authorities. The Authority participates in the Procurement Agency for Essex and the National Procurement for Fire. The Authority supported a successful bid by Devon and Somerset Fire & Rescue Authority for innovation funding in 2015/16 to support a national procurement hub. We participate in expenditure analysis of spend by function, supplier and category on a national basis. This enables procurement resources to be targeted where they will deliver most savings. In 2015/16 we will support the sector led spend analysis review which are projecting procurement savings of 10% for joint procurement of sector specific items.
- Challenge – New areas of expenditure and all projects are subject to approval processes that requires the preparation and consideration of a business case. A process of “SMB Challenge” was used during the 2015/16 budget build process with internal reviews by independent directors of all departmental budgets as part of their review and challenge by the Strategic Management Board.
- Monitoring – Areas such as Fleet Workshops have extensive records of the maintenance costs of all appliances with all work recorded and costed. This enables the Service to make informed decisions on equipment replacement and demonstrate the savings achieved through the selection of vehicles. Similarly Property Services use the results of condition surveys to inform decisions around expenditure on maintenance and repairs; and
- Restraint – All budget holders have demonstrated the ability to control expenditure and decide if expenditure is appropriate and necessary. This has been supported by a budget monitoring process that provides “Substantial Assurance” according to a review by Internal Audit in late 2011. The continued delivery of in-year savings has demonstrated a high degree of cost awareness and expenditure control and this has been reflected in the budget bids for 2015/16.

All of the major support departments have been subject to independent external scrutiny and review in the last few years.

ICT PROJECTS

The ICT budget has been focussed on the delivery of core priorities such as the new Control Mobilising System and has been restricted to reflect the delivery of change that departmental resources across the Service can support. Priority will be given to projects that deliver cashable savings in future years including the replacement of the high cost Management Information System.

INSURANCE

The Authority's present insurance arrangements were tendered in partnership with eight other Authorities. Proposals to generate further savings from the establishment of a mutual pooling arrangements are on track for implementation in November 2015. This will ensure that benefits as we improve risk management arrangements return directly to the Authority. Funding for the start-up costs of the pooling arrangement has been provided by the government following a successful bid for transformational funding.

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 2014/15 and the planned capital budget for 2015/16. The expected capital receipt from the sale of the former headquarters at Hutton in 2015/16 will provide the opportunity to offset the statutory provision for capital financing, either in 2015/16 or future years.

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	Current Full Year 2014-15 Budget £'000s	Full year forecast 2014-15 £'000s	2015-16 Budget £'000s
Income			
Government Grants	(2,286)	(2,271)	(1,832)
Cycle to Work Scheme	(50)	(40)	(38)
Childcare Vouchers	(71)	(87)	(84)
Sales of Vehicles	(40)	(10)	(10)
Canteen Income	(39)	(62)	(49)
Sale of Vehicle Spares	-	(45)	(35)
Aerial Sites	(122)	(122)	(122)
Solar Panels	-	-	(60)
Hydrant Tests	(60)	(80)	(80)
Lease Cars - Employee Contributions	(90)	(87)	(87)
General Sales	(40)	(30)	(26)
Service Charges	(29)	(29)	(9)
Secondments	(105)	(130)	(104)
Community Safety general	-	(11)	-
Labour Credit	(50)	(75)	(50)
Section 12 Income	(27)	(27)	(40)
Interest on short term lending	(140)	(100)	(120)
External Interest Received	(4)	(4)	-
Community Fire Safety	(125)	(125)	(311)
Reimbursements from EFA(T)	(109)	(93)	(84)
Other Miscellaneous Income	(77)	(190)	(147)
Emergency Planning Income	(599)	(608)	(608)
Total Income	(4,062)	(4,225)	(3,895)

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, the new income stream from solar panels, and the reduction in grant income following the completion of the Fire Control project.

PRECEPT AND IMPLICATIONS FOR COUNCIL TAX

The table below sets out the calculations of the proposed council tax and show the changes from the 2014/15 budget.

	2014/15 Budget	Council Tax Freeze 2015/16
	£'000	£'000
Budget Requirement	73,271	71,908
Sources of Finance		
Revenue Support Grant	19,138	16,522
National Non-Domestic Rates	14,712	14,993
Total Grant	33,850	31,515
Collection Fund Surplus	467	715
Precept Requirement	38,954	39,678
Tax Base	586,481	597,373
Council Tax (Band D)	£66.42	£66.42

Note, that the 2014/15 budget excluded the £465k compensation for government imposed rebates to national non-domestic rates as this was not announced until after the budget had been approved. The main changes from 2014/15 are the reduction in government funding and a £724k increase in the precept from the higher tax base. .

CAPITAL PROGRAMME 2015/16 – 2017/18

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 projects that are either 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:

	Budget 2014/15 £'000s	Forecast 2014/15 £'000s	Capital Bid 2015/16 £'000s	Capital Bid 2016/17 £'000s	Capital Bid 2017/18 £'000s
Property					
New Premises					
Service Headquarters	2,185	2,185	-	-	-
Service Workshops	250	250	-	-	-
Other	-	-	-	-	-
Existing Premises					
Solar Panels	1,911	1,652	-	-	-
Asset Protection	2,000	1,600	2,170	2,000	2,000
Asset Improvement Works	-	-	-	-	-
Total Property	6,347	5,687	2,170	2,000	2,000
Equipment	1,645	1,581	736	1,066	25
Information Technology					
Projects > £250k	1,042	498	1,300	-	-
Projects < £250k	2,059	1,766	200	150	150
Total Information Technology	3,101	2,264	1,500	150	150
Vehicles					
New Appliances	2,200	1,400	3,161	1,940	1,940
Other Vehicles	1,121	578	608	565	228
Total Vehicles	3,321	1,978	3,769	2,505	2,168
Total Capital Expenditure	14,414	11,510	8,175	5,721	4,343

Projects where there is not a confirmed business case are excluded from the above figures. This includes the potential changes to properties as part of the forward review of operations. Specific proposals will be brought forward to Members in due course and the impact on future years budgets included in the reports.

CAPITAL RECEIPTS AND CAPITAL GRANTS

The budget includes a capital receipt for the current market value of the Hutton site. Capital receipts can be used to reduce the requirement to finance capital expenditure from the Authority's revenue budget, but no provision for this has yet been made.

The government used their Transformation Funding programme to provide capital grants for 2015/16. The Authority was successful in bidding for revenue funding but made no capital bids as they required "spade ready" projects shared emergency services use of new facilities.

FUNDING CAPITAL EXPENDITURE

The cash generated from the proposed income and expenditure budget is £4.8m with the balance of funding coming from the Authority's cash balances carried forward from 2013/14. In addition a loan of £4m from the Public Works Loan Board will be paid off during the year. After these changes the Authority will still have around £18m of cash balances at March 2015.

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 2015/16.

The Authority is also required to consider and set the capital financing indicators for the period 2015/16. A separate report on this is included on the agenda for the meeting.

RISK MANAGEMENT IMPLICATIONS

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

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. 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.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents: ---	
List of background documents (not attached): ---	
Proper Officer:	Director of Finance & Treasurer
Contact Officer:	Director of Finance & Treasurer, Mike Clayton Essex County Fire & Rescue Service Kelvedon Park, Witham, Essex CM8 3HB Tel 01376 576000 E-mail: mike.clayton@essex-fire.gov.uk

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 2015/16 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 are either 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:

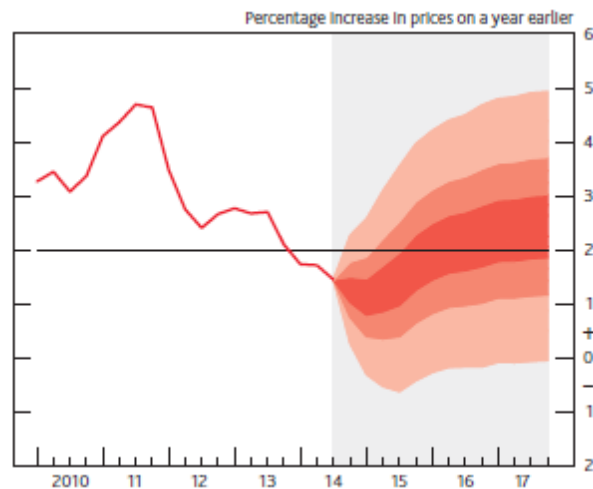
1. Assumptions regarding inflation;
2. Estimates of the level and timing of capital receipts;
3. Treatment of demand led pressures;
4. Treatment of savings;
5. Risks inherent in any new partnerships etc;
6. Financial standing of the Authority (i.e. level of borrowing, debt outstanding etc);
7. The Authority's 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 is more positive than it has been in recent years. The outlook for both inflation remain below the 2% target set for the Bank of England in 2015/16. The Bank of England's November 2014 inflation forecast is shown below:



A key element in the budget preparation process is building in an appropriate allowance for inflation up to 31 March 2016. 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.

Some specific allowances have been built into the budget for fuel and utility prices where contracts will be renewed or allow for variations. No other specific allowances have been built into the budget for pay and price inflation. Instead an overall inflation and contingency allowance of £595K has been used. If the requirement to increase cash budgets because of pay awards exceeds this provision then either off-setting savings will need to be found elsewhere in the budget, or the additional costs in 2015/16 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 2014. 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 2014 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.

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 2015/16. Most of the potential increases have been allowed for in the budget, including specific provision for known contractual increases. For other areas increases of this nature would be absorbed by budget managers.

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.

ESTIMATES ON THE LEVEL AND TIMING OF CAPITAL RECEIPTS

The present cash position of the Authority, with cash balances of around £25m expected at the start of the financial year means that there is no funding risk associated with the timing of the capital receipts expected in 2015/16 from the sale of the former headquarters at Hutton.

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 733 wholetime firefighters in 2015/16. The staffing forecast reflect 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 part time firefighters. In addition, the use of retained duty staff on a wider range of community safety and risk review activities has increased the level of expenditure. Our experience in 2014/15 has included some significant one off costs associated with periods of flooding and the long running incident at Thoby Lane. The budget for 2015/16 reflects this level of activity.

For the last six years the Service has used a computer based pay system for capturing the activities of retained duty staff and this has allowed more detailed activity plans to be developed and costed. These controls have enabled 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 £1.5m 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 £300,000, 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. 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 £300k. The implementation of these resilience arrangements costs around a net £10k more per shift to implement. Such costs have been managed within the overall budget in 2014/15 and earlier years.

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 2014 the Authority had £37.5m of long term debt to fund capital expenditure and a further £0.3m of finance lease obligations. A repayment of £4.0m of debt was made on 1 December 2014 with a further repayment of £4.0m in January 2016. No additional borrowing is planned for the next few years. Further significant capital spending is projected over the next few years. The revenue impact of the planned spend for 2015/16 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 March 2015 the cash balanced is projected to be £11m. Early repayment of Public Works Loan Board debt attracts financial penalties and so there are no plans for the early repayment of the present debt.

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 November 2011 confirmed that the Fire Authority can take substantial assurance from the budgetary controls in place. This area is due to be reviewed again in 2015.

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 continued to be 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 INSURANCE ARRANGEMENTS

Current insurance arrangements are 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 insurance related costs remains at £1.0m. The present contractual arrangement for insurance was retendered during 2013 and the level of insurance premiums payable was maintained. In November 2015 the insurance will transfer to a pooling arrangement of the consortium, under these arrangements the Authority will directly benefit if it reduces the number and value of its claims, although there is also a small increase in exposure to the claims experience of the other Authority's in the consortium. The consortium continues to work together on benchmarking and improving risk management to help to mitigate this risk.

PENSION LIABILITIES

5. 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 has been reviewed for 2015/16.

6. Support staff

The Authority makes contributions 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 2013. The level of contributions by the Authority is fully reflected in the 2015/16 budget and these rates and amounts will be fixed until March 2017.

RESERVES

The general reserves of the Authority were £2,574k on 1 April 2014. The present forecast suggests that the Authority has a net underspending in 2013/14 which will be either be utilised to make voluntary contributions towards capital financing, or to increase the general reserve. The budget for 2015/16 makes no planned use of the general 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 2014 Balance £'000s
Emergency Planning	To hold savings on the costs of Emergency Planning Reviewed annually with Essex County Council	315
Retained 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.	1,500
Spend to Save Reserve	Good track record of delivering savings. Provides the ability to fund a period of transition before savings are delivered. £1,930k allocated for solar panels and £250k allocated for sprinklers in both 2014/15 and 2015/16 Reviewed Annually – Level to reduce.	2,930
Taxbase and Collection Account Reserve	A new area of risk for 2013/14. Initially set at 2.5% of precept income. Reserve at Maximum Limit – To be reviewed March 2015.	1,000
National Non-Domestic Rates Collection Reserve	A new area of risk To be reviewed for 2016/17 after three years of the new arrangements.	600
Infrastructure Reserve	To support future capital expenditure on buildings. Planned increase to even out future capital spending	1,000
Rolling Budgets Reserve	To hold balances of expenditure carried forward into the next financial year. £584k utilised in 2013/14. Reviewed in March each year.	584

Specific Reserves	Comment & Review	March 2014 Balance £'000s
Business Continuity Reserve	To provide funds for any business interruption event not covered through insurance. Reviewed annually. Recommended level is maintained.	500
Insurance	Provide for an amount equivalent to 2 years premiums (£1.2m) and an amount in respect of in-year losses (£0.3m) To be reviewed in 2015 when Pooling arrangements commence.	1,500
Total		9,929

Apart from the provision for taxbase and collection account fluctuations these areas have previously been included in the assessment of the general level of reserves. The changes to the taxbase calculation following the localisation of council tax support and the increased collection risk create new uncertainties for the Authority. This is complicated by there being fourteen separate billing authorities.

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%
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 2015/16	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%	4.7%
Partnerships	Increased risks associated with Community Budgets. Limited partnership funding of £0.2m pa	0.2%	0.6%
Financial Standing	Increasing level of borrowing limits future flexibility. Separate provision for future years.	0.5%	2.0%
Total		3.0%	9.3%

The lower limit of 3.0% of turnover equates to £2.1m and the upper limit of 9.3% of turnover equates to £6.6m. The Authority is at the lower end of this range.

CONCLUSION

Given the level of General Balance available in 2015/16 of £2.6m; 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 2015/16 and future years.