

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



REPORT REFERENCE NO.	DSFRA/10/4
MEETING	DEVON & SOMERSET FIRE & RESCUE AUTHORITY (BUDGET MEETING)
DATE OF MEETING	19 FEBRUARY 2010
SUBJECT OF REPORT	2010/2011 REVENUE BUDGET AND COUNCIL TAX LEVELS
LEAD OFFICER	Treasurer and Chief Fire Officer
RECOMMENDATIONS	<p>(a) <i>That the following recommendation of the meeting of the Resources Committee, held on 8 February 2010, be approved;</i></p> <p>(i) <i>to set a Net Budget Requirement of £75,135,000 for 2010/2011;</i></p> <p>(ii) <i>to set a level of council tax in 2010/11 of £71.77 for a Band D property, representing an increase of 3.74% over the figure for 2009/2010;</i></p> <p>(b) <i>that as a consequence of recommendations (a)(i) and (ii);</i></p> <p>(i) <i>the tax base for payment purposes and the precept required from each billing authority for payment of the total precept of £43,704,953, as detailed on Page 2 of the budget booklet provided separately with this report, be approved;</i></p> <p>(ii) <i>the council tax for each property bands A to H associated with a total precept of £43,704,953, as detailed on Page 2 of the budget booklet provided separately with this report, be approved; and</i></p> <p>(iii) <i>that the Treasurer's 'Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserve Balances' as included as Appendix E to this report, be noted.</i></p>

EXECUTIVE SUMMARY	<p>It is a legislative requirement that the Authority sets a level of revenue budget and council tax for the forthcoming financial year by the 1 March each year.</p> <p>The Fire and Rescue Authority is asked to consider the contents of this report and ratify the recommendations made from the meeting of the Resources Committee, held on the 8 February 2010, in relation to the levels of revenue budget and council tax for 2010/2011.</p>
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	No potentially negative impact sufficient enough to warrant a full impact assessment has been identified in the content of this report.
APPENDICES	<ul style="list-style-type: none"> A. Letter sent to CLG in response to the provisional Local Government Finance Settlement 2010/2011. B. The profile of the Devon & Somerset Fire & Rescue Service compared to other English fire and rescue services. C. Proposed Net Revenue Budget Requirement 2010/2011. D. Report on Precept Consultation for 2010/11 Budget E. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances.
LIST OF BACKGROUND PAPERS	Nil.

1. INTRODUCTION

- 1.1 It is a legislative requirement that the Authority sets a level of revenue budget and council tax for the forthcoming financial year, before 1 March, in order that it can inform each of the 15 council tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2010/2011. The purpose of this report is to provide the necessary financial background so that consideration can be given as to what would be appropriate levels for this Authority.
- 1.2 The Resources Committee, at its meeting held on 8 February 2010, considered this issue and resolved to recommend to the Authority that the net budget requirement be set at £75.135m, which would require the council tax for a band D property to be set at £71.77. The Authority is invited to consider the contents of this report with a view to approving the recommendations of the Resources Committee.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT

- 2.1 The provisional Local Government Finance Settlement for 2009/2010 was announced on the 26 November 2009. This announcement only served to confirm that the indicative figure for 2010/2011, announced in December 2007 as part of the three-year grant settlement covering the years 2008/2009 to 2010/2011, would not be changed.
- 2.2 This announcement was only provisional as it was subject to the normal consultation period which ended on 6 January 2010. During the consultation period every local authority had an opportunity to challenge individual grant allocations. A response submitted to the Department of Communities and Local Government (CLG), on behalf of Devon and Somerset Fire and Rescue Authority (DSFRA) is attached as Appendix A. This response, amongst other things, challenged the methodology used to distribute Fire Formula Grant which the Service believes does not reflect the disproportionate costs of providing a fire and rescue service in a sparse rural area such as Devon and Somerset. Appendix B provides graphical illustrations of how the sparsity issue impacts on this Authority more than most other fire and rescue authorities and the consequent impact on resources required.
- 2.3 The final grant settlement figures were announced on 20 January 2010. These final figures, disappointingly, made no changes to the provisional figures. The Minister was not sufficiently convinced by any of the arguments and made no changes on the basis that no exceptional circumstances had been identified from the consultation process. The grant allocations included in that announcement relating to Devon and Somerset FRA are shown in Table 1 below

TABLE 1 – FINAL GRANT SETTLEMENT FIGURES	£m	%
Formula Grant 2010/2011	31.245	
Increase over 2009/2010 Grant	716	2.3%

- 2.4 A grant allocation of £31.245m for 2010/2011 representing an increase of 2.3% over the 2009/2010 figure, compares with an average increase for all fire and rescue authorities of 1.42%, ranging from 0.5% to 4.13%.

Comprehensive Spending Review 2007 (CSR 2007)

- 2.5 Prior to the grant settlement announcement the government had published its latest Spending Review (CSR 2007). This included the following headline figures for public spending for the next three years:
- that provision has been made for increases in spending at an average of 1% per year in real terms over the next three years;
 - that these increases are underpinned by an ambitious value for money programme that will see local government deliver cash releasing savings of 3% per year; and
 - that the settlement will enable local authorities to keep council tax rises low with the Government expecting the overall increase to be well under 5% in each of the next three years.

Capping

- 2.6 As has been the case in previous years, the government has not announced the criteria to be used in determining whether budget and council tax increases for 2010/11 are excessive, although alongside the provisional grant settlement it has emphasised that:
- “The government is pleased that the average council tax increase for 2009/2010 was 3%, and that it anticipates that this average will fall further in 2010/2011”*
- 2.7 It has also been re-emphasised that it should not be assumed that the principles applied in 2009/2010 will be repeated in 2010/2011. In 2009/2010 no local authorities or fire and rescue authorities were capped, although three police authorities were, having breached both of the capping principles applied namely:
- that the increase in revenue budget should not exceed 4%; and
 - that the increase in council tax should also not exceed 5%.

Devon and Somerset Fire and Rescue Authority did not breach either of these tests and was not therefore considered for capping.

3. CORE REVENUE BUDGET REQUIREMENT 2010/2011

- 3.1 A draft core budget requirement for 2010/2011 has been assessed as £75.135m. A summary of the make up of this budget requirement is provided in Table 2 overleaf, and a breakdown of the more detailed items included in this draft budget are included in Appendix C. A summary budget booklet is also enclosed with this report which provides further analysis of the 2010/2011 budget at subjective budget line level.

<u>TABLE 2 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2010/2011</u>	£m	%
Approved Net Revenue Budget Requirement 2009/2010	72.659	
PLUS Provision for pay and price increases (items 1 to 4 included in Appendix C to this report)	0.407	
PLUS Inescapable Commitments (items 5 to 12 included in Appendix C to this report)	1.691	
MINUS Budget Reductions (items 13 to 20 included in Appendix C to this report)	(0.508)	
PLUS Essential Spending Needs and Invest-to-Save (items 21 to 26 included in Appendix C to this report)	0.886	
DRAFT REVENUE BUDGET 2010/2011	75.135	
INCREASE IN BUDGET OVER 2009/10 (£m)	2.476	
INCREASE IN BUDGET OVER 2009/10 (%)		3.41%

4. **PROPOSED COUNCIL TAX 2010/2011 AND MEDIUM TERM FINANCIAL PLANNING**

- 4.1 To fund the core budget requirement of £75.135m would require the 2010/2011 council tax for a Band D property to be set at £71.77, an increase of £2.59 per annum (5 pence per week) over 2009/2010, representing an increase of 3.74%. Table 3 below illustrates how this figure is calculated.

<u>TABLE 3 – CALCULATION OF 2010/2011 COUNCIL TAX FOR A BAND 'D' PROPERTY</u>	£	Increase over 2009/2010 %
NET REVENUE BUDGET REQUIREMENT 2010/2011	75,135,000	
LESS Government Grant	(31,245,174)	
LESS Share of net surplus on Collection Funds	(184,873)	
AMOUNT TO BE COLLECTED FROM COUNCIL TAX PAYERS 2010/2011	43,704,953	
<i>DIVIDE BY</i> COUNCIL TAX BASE FOR DEVON AND SOMERSET (£ p)	608,942.53	
COUNCIL TAX FOR BAND 'D' PROPERTY IN 2010/2011	£71.77	
INCREASE OVER 2009/2010 BAND 'D' COUNCIL TAX	£2.59	3.74%

- 4.2 In formulating the core budget requirement for the next financial year, an assessment has also been made with regard to indicative core budget requirements for the following two years, i.e. 2011/2012 and 2012/2013. This will enable the Medium Term Financial Plan (MTFP) for the Authority to provide financial modelling over a three year timeframe, to inform future budget and council tax strategy. The indicative budget figures for 2011/2012 and 2012/2013 have been assessed as approximately £77m for both years. It should be emphasised that the figures for both years include some key assumptions which may well be subject to change, for instance projections of future pay award and inflationary increases, which by 2011 may well be higher than the levels included in the current MTFP.
- 4.3 The other unknown quantity, of course, in terms of medium term financial planning is the uncertainty over future government grant levels. It has been widely commented upon that from 2011 the government will require significant reductions in public spending, which is highly likely to result in reductions in government grant levels from 2011/2012 onwards. The actual grant levels for 2011/2012 will not be known until the Local Government Finance Settlement is announced in December 2010, and therefore it is impossible to gauge with any certainty the exact impact to Devon and Somerset FRA. However based upon even an optimistic assumption that the grant figure for 2011/2012 is frozen at the 2010/2011 level i.e. £31.245m, then the MTFP modelling indicates that ongoing savings of approximately £1m will be required from the 2011/2012 core budget requirement.
- 4.4 It is with the future budget difficulties in mind that the Service has already commissioned fundamental reviews to be undertaken during 2010, of both Service Delivery and Support Services. The terms of reference of these reviews will not only focus on the scope for identifying budget savings from future revenue budgets, but also to make improvements to the way we do things and reducing community risk. In order to support this work an amount of £0.455m has been included in the 2010/2011 core budget requirement as a one-off investment to commence the implementation of the identified changes.

5. PRECEPT CONSULTATION 2010-11

- 5.1 Section 65 of the Local Government Finance Act 1992 requires precepting authorities to consult non-domestic ratepayers on its proposals for expenditure. The Act requires consultation each financial year and that it be completed before the first precept is issued by the authority for that financial year. The Department for Communities and Local Government previously advised that there is no statutory requirement to consult the general public. For 2010/2011 it was decided to adopt the telephone survey which had successfully been used during the previous 3 years.
- 5.2 The main findings from the survey undertaken between 11 and 15 January 2010 revealed that the majority of respondents 82% (301) felt that an increase to £71.95 for a Band 'D' property represented value for money, whilst 18% (64) did not consider it value for money. As can be seen in Table 4 overleaf, for the first time in four years this represented an increase in the number of people who considered the proposed level of Council Tax to be value for money.

TABLE 4: QUESTION 1 DO YOU CONSIDER '£71.95' TO BE VALUE FOR MONEY? - COMPARISON BETWEEN RESULTS IN 2007/08, 2008/09, 2009/10 AND 2010/11

Response	2007/08 Proposed Council Tax £63.45	2008/09 Proposed Council Tax £66.58	2009/10 Proposed Council Tax £69.81	2010/11 Proposed Council Tax £71.95
Yes	79%	75%	68%	82%
No	21%	25%	32%	18%
Total	100%	100%	100%	100%

5.3 When asked if, in addition to a £71.95 council tax, they would be prepared to pay £1 more to enable DSFRS to improve community safety, 82% of respondents said yes. Of the people who answered “no” or “don’t know” to question 1, 72% would not find any increase on last years figure of £69.18 to be reasonable, whilst 28% felt an increase between 2.5% and 4.0% would be reasonable.

5.4 A Briefing Note is included as Appendix D to this report, which provides details of the methodology and sample sizes used, together with a more detailed report of the survey results.

6. STATEMENT ON ROBUSTNESS OF BUDGET ESTIMATES AND THE ADEQUACY OF THE LEVELS OF RESERVES AND BALANCES

6.1 It is a legal requirement under Section 25 of the Local Government Act 2003 that the person appointed as the ‘Chief Finance Officer’ to the Authority reports on the robustness of the budget estimates and the adequacy of the level of reserves. The Act requires the Authority to have regard to the report in making its decisions. This statement is included as Appendix E to this report.

7. SUMMARY

7.1 The Authority is required to set its level of revenue budget and council tax for 2010/2011 by 1 March so that it can meet its statutory obligation to advise each of the 15 billing authorities in Devon and Somerset of the required level of precept for 2010/2011. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for Devon and Somerset FRA.

7.2 Following consideration of this matter at the meeting of the Resources Committee, held on the 8 February 2010, it is recommended that the net budget requirement for 2010/2011 be set at £75.135m, which would require the council tax for a Band D property to be set at £71.77, an increase of £2.59 (5 pence per week) over 2009/2010, equivalent to 3.74%. Members of the Fire and Rescue Authority are asked to consider the contents of the report with a view to ratifying the recommendations of the Resources Committee.

KEVIN WOODWARD
Treasurer

LEE HOWELL
Chief Fire Officer

Lee Howell
CHIEF FIRE OFFICER

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Dear Mr Lock,

**RESPONSE FROM DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY IN
RELATION TO THE REVENUE SUPPORT GRANT SETTLEMENT FOR 2010/2011**

In relation to the provisional 2010/2011 Local Authority Finance Settlement announcement on the 26th November 2009, I am writing to make representations in response to the settlement as it affects Devon and Somerset Fire and Rescue Authority.

As your department will be aware, this Authority has on a number of occasions, challenged the methodology used to distribute Fire Formula grant, which in its view, does not fairly reflect the disproportionate cost issues faced by a rural authority providing fire and rescue cover in a large sparsely populated geographical area, such as Devon and Somerset. The most recent challenges were made in my letter dated 7th January 2009, in response to the 2009/2010 provisional grant settlement, and my letter dated 16th July 2009 in response to the proposed review of the methodology used to distribute Fire Formula Grant from 2011/2012.

There are three specific issues that this authority has previously raised, and which it again, as part of this consultation exercise, requests are addressed in the final 2010/2011, and future, settlements. These issues are:-

- The inequity of the Formula Grant system to recognise the additional costs of running a rural fire and rescue authority i.e. sparsity.
- The inequity of the Formula Grant system in the way that support to capital spending is distributed.
- The additional financial burden from changes in legislation which now provides access to a pension scheme for retained fire-fighters. It is estimated that this change alone has placed an additional financial burden on the authority in 2009/2010 of £0.440 million.

The paragraphs below expand further on each of these issues.

SPARSITY

The current formula distribution mechanism for Fire does not include a sparsity factor, and therefore does not reflect the additional resource implications of providing a Fire Service in a rural area. This is the case despite the fact that in the other Formula Grant calculations, such as Education, Social Services and Police, sparsity is recognised as a factor.

The issue is amply demonstrated by looking at grant per head of population for urban and rural authorities:

2009/2010 Average grant per head = £24.64

Urban Authorities

Cleveland	£39.84
London	£33.82
Merseyside	£34.05

Rural Authorities

Hereford and Worcester	£14.27
Wiltshire	£14.54
Dorset	£15.34
<i>Devon and Somerset</i>	<i>£18.16</i>

The impact of recent large scale flooding incidents is a good example of the sort of issues that are not adequately recognised in formula grant, and which impact on rural areas in particular. This position can only be exacerbated from the impact of climate change. Sparsity is also an important influence on costs because of: -

- Distance of travel, which is compounded when topographical features such as moors, rivers, estuaries, etc are also prevalent in area;
- The need to provide fire cover, at a disproportionate cost to its utilisation;
- Diseconomies of scale;
- Management effort in terms of running a large retained fire service with generally high turnover rates of staff.
- Significant transport costs.

In terms of area covered, sparse Fire and Rescue Authorities are in a different league from urban authorities. For example, area covered on average per rural station compared with that of urban stations is shown below: -

Sparse		Urban	
	Hectares		Hectares
Cumbria	18,000	London	1,400
Lincolnshire	16,000	Merseyside	2,400
North Yorks	22,000	Manchester	3,100
Devon and Somerset	12,400	West Yorks	4,000

Because of the huge areas they have to cover rural authorities have to maintain many more fire stations than their urban counterparts, as shown in the table below. This compares the population served on average by each station in urban and rural areas.

Sparse	Population per station	Urban	Population per station
Cumbria	13,000	London	67,500
Lincolnshire	18,000	Merseyside	52,000
Devon and Somerset	19,900	West Midlands	63,000

What Devon and Somerset FRA is seeking: an equitable grant distribution formula which reflects the additional costs of maintaining service provision in a large rural area, both through an allowance for the area served and an allowance for the number of fire stations necessary to maintain minimum standards of fire cover across the area.

ALLOCATION OF CAPITAL RESOURCES

The Formula Grant includes support for capital spending through a formula to calculate notional debt charges emanating from capital spending levels. Prior to the introduction of the Prudential Code this calculation was based upon the amount of Basic Credit Approval allocated to each Authority. Whilst the Prudential Code now permits authorities to set its own levels of capital spending, as long the spending is prudent and affordable, the Formula Grant calculation still includes a contribution towards the debt charges, which is based upon the Supported Capital Expenditure (Revenue) figure, which is a figure allocated to each Authority by government to enable the calculation of notional debt charges to be made.

Under current arrangements the total amount of supported capital expenditure is split between Metropolitan Fire Authorities 50.9% and non-Metropolitan Fire Authorities 49.1%, with the non-Metropolitan share being distributed based upon population, and the Metropolitan share being distributed based on a formula which takes account of the number of fire stations, appliances and staff that each authority has. This distribution would clearly seem to favour Metropolitan Authorities as is illustrated from Table 1 overleaf;

TABLE 1 – ANALYSIS OF SUPPORTED CAPITAL EXPENDITURE (PER HEAD OF POPULATION)

	Population (m)	Supported Capital Expenditure (SCE) 2009/2010 (£000)	Number of Stations	SCE per station (£000)
<i>Combined Fire Authorities</i>				
Devon and Somerset	1.681	1,757	82	21
Hampshire	1.711	1,811	52	35
Kent	1.673	1,750	65	27
Essex	1.700	1,788	51	35
<i>Metropolitan Fire Authorities</i>				
Merseyside	1.353	3,160	26	122
South Yorkshire	1.296	2,748	25	110
Greater Manchester	2.580	4,396	41	107
Tyne and Wear	1.075	2,129	17	125

As can be illustrated from the above the current mechanism for the distribution of SCE amongst fire authorities is 'unfair' and clearly does not recognise the needs of a more rural Fire Service, which will inevitably have greater capital spending issues as a result of the need to build and maintain more fire stations, and to replace more fire appliances and equipment. For instance, under the current distribution methodology Tyne and Wear (£2.129m), receives a larger allocation than Devon and Somerset (£1.757m), even though it has significantly less fire stations, i.e. 17 compared to 82. Similarly, when compared to other combined fire authorities, Devon and Somerset receives a similar SCE figure to that of Hampshire, Kent and Essex, as all have similar populations, and yet Devon and Somerset has by far the greater number of stations.

What Devon and Somerset FRA is seeking: An equitable formula for the allocation of SCE (R) which is consistent right across England, and which reflects the factors which give rise to the need for capital spending.

ADDITIONAL COSTS RELATING TO RETAINED STAFF JOINING THE NEW PENSION SCHEME

The new fire-fighters pension scheme has for the first time given access to a scheme for retained staff. This has incurred a new cost to fire authorities in relation to an employer's contribution for each member that joins the scheme. Whilst this has placed additional financial burdens on most FRA's, it will be in rural authorities such as Devon and Somerset where the biggest cost impact will be felt.

To put this into context, Devon and Somerset FRA currently employs **1,185 retained staff**, of which 512 (43%) have opted to join the pension scheme, at an additional cost of £440,000 for 2009/2010. This figure can only grow in future years, as new entrants are automatically entered into the scheme. For a Metropolitan Authority such as Greater Manchester (**36 retained staff**) or South Yorkshire (**53 retained staff**) the impact of this change has been relatively insignificant. There is no recognition in the new formula of this additional burden.

What Devon and Somerset FRA is seeking: A formula, which is changed to reflect the additional burdens faced by rural authorities in relation to employer's contributions to the Pensions Account for retained staff. If this issue is not to be reflected in Formula grant distribution, then this authority would request that funding be allocated through 'New Burdens' grant.

SUMMARY

This Authority welcomes the opportunity to again provide its views on some of the shortcomings of the current methodology used to distribute fire formula grant, and requests that the issues highlighted within this response, particularly the non inclusion of sparsity as a factor in the grant, are reflected in the final grant calculations for 2010/2011.

Yours faithfully

Kevin Woodward
Treasurer to Devon and Somerset Fire and Rescue Authority

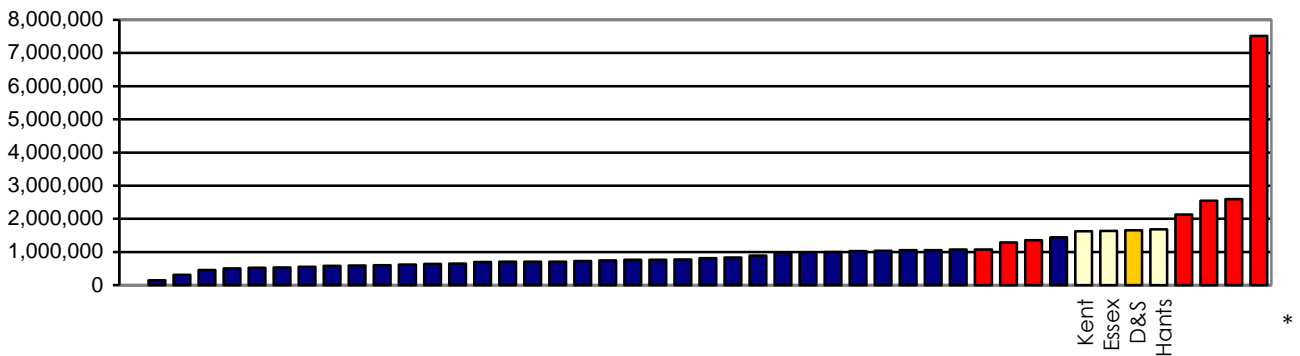


The profile of Devon & Somerset Fire & Rescue Service compared to other English fire & rescue services.

Population

Within Devon and Somerset there is a residential population of 1.66 million. A very similar number when compared to Kent (1.62 million), Essex (1.64 million) and Hampshire (1.69 million).

Population as at June 2007*:

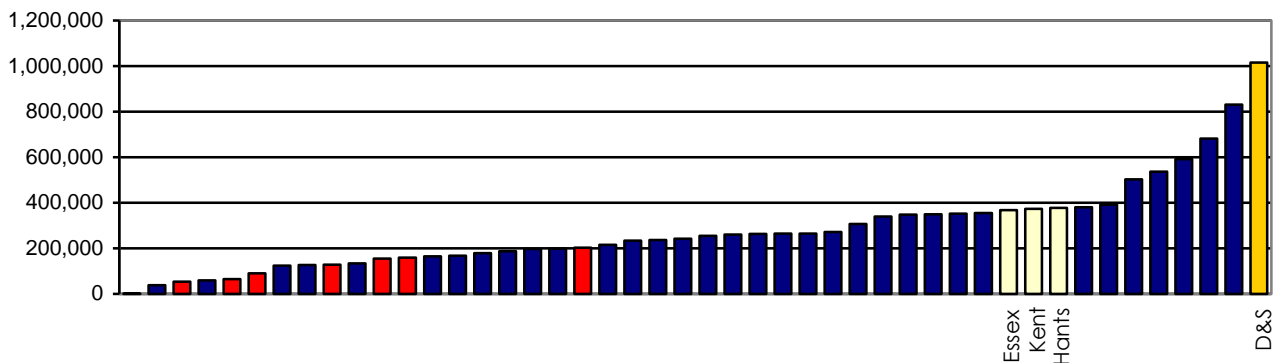


The metropolitan Services are shown as red.

Area

However, the population in Devon and Somerset is spread over the largest geographical area compared to all other services within England and an area approximately 3 times the size of Essex, Kent and Hampshire.

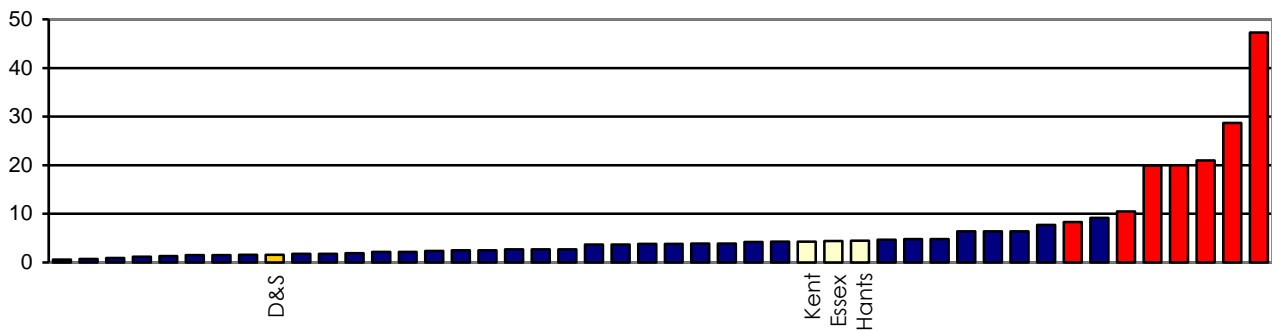
Area in hectares:



Population Density

Not surprisingly, the Service has one of the most sparsely populated areas.

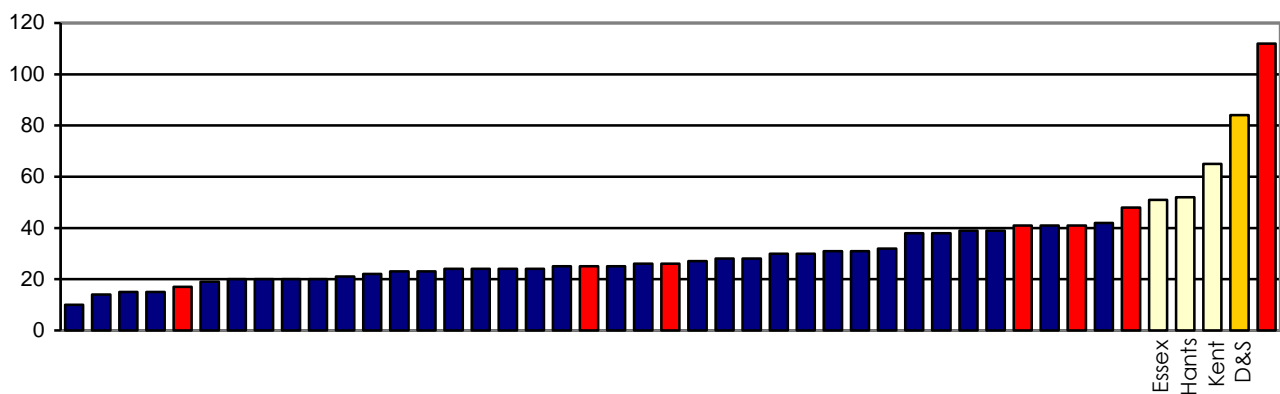
Population per hectare:



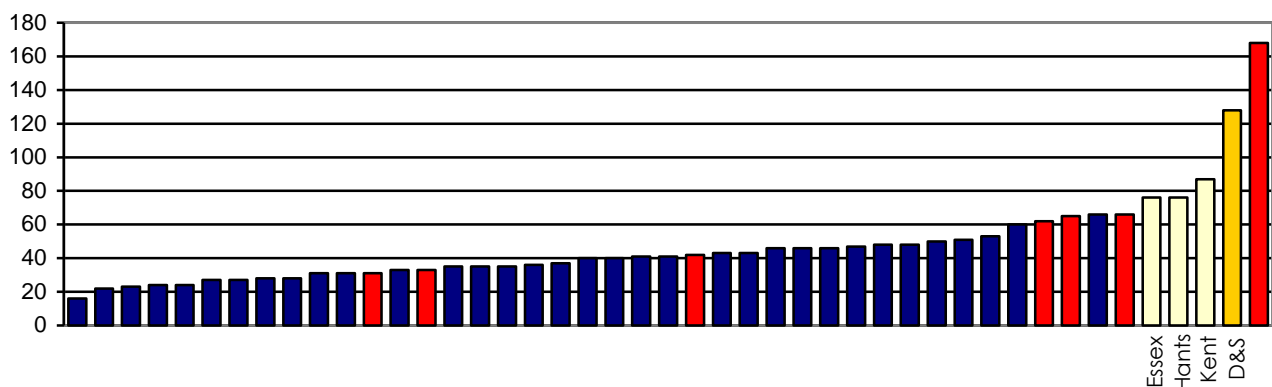
Resources

To provide services to the community, there are the following number of stations, appliances and people employed.

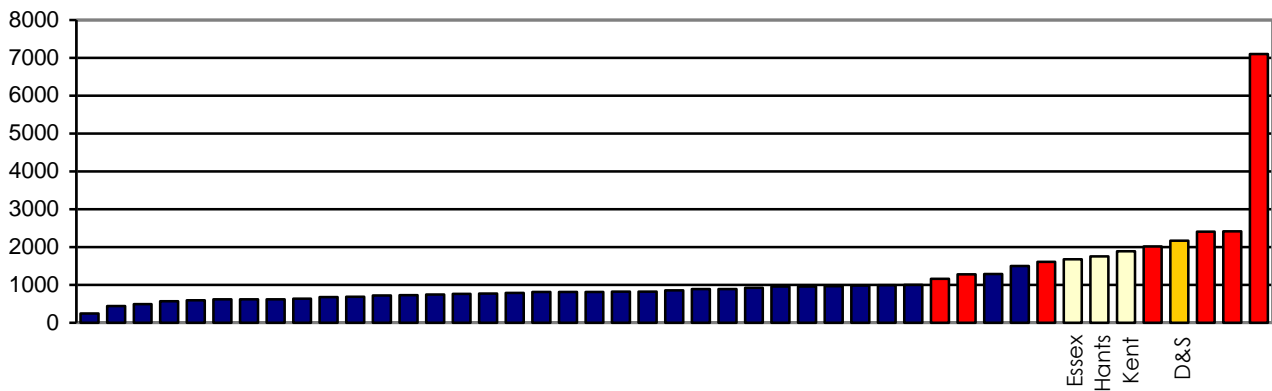
Estimated number of Fire Stations as at 31 March 2008:



Estimated number of pumping appliances as at 31 March 2008:



Estimated number of people employed (FTE) as at 31 March 2008:



CORE REVENUE BUDGET REQUIREMENT 2010/2011

		£m		%
	Revenue Budget 2009/2010		72.659	
	Provision for Pay and Prices			
1.	Uniformed Pay - July 2009 (budgeted 2.3% LESS actual of 1.25%) - July 2010 (assumed 1.0%)	(0.223) 0.359		
2.	Non-Uniformed Pay - April 2009 (budgeted 2.3% LESS actual of 1.0%) - April 2010 (assumed 1.0%)	(0.120) 0.100		
3.	Provision for prices increases (fuel, utilities and non-domestic rates)	0.242		
4.	Provision for inflationary increase in pension costs.	0.049	0.407	
	Inescapable Commitments			
5	Additional debt charges arising from agreed capital programme	0.660		
6	Additional costs associated with the implementation of the Integrated Clothing Project (ICP) – additional cost of £0.557m less amount of £0.357m set aside in earmarked reserves.	0.200		
7	Reduction in income targets resulting from the economic recession.	0.100		
8	Additional costs associated with training for Retained Duty Staff.	0.201		
9	Costs associated with the introduction of the national radio scheme (Firelink) and mobilising equipment	0.196		
10	Costs of maintaining a full establishment	0.250		
11	Replacement of obsolete Breathing Apparatus equipment	0.035		
12	Other minor costs(net)	0.049	1.691	
	Budget Reductions			
13	Reductions in pay costs from incremental drift and pension costs	(0.278)		
14	Reduced provision for ill-health costs.	(0.035)		
15	Reduced provision for travel costs.	(0.046)		
16	Reduction in external support costs	(0.020)		
17	Reduction in rental costs (vacation of Pynes Hill, Exeter)	(0.047)		
18	Removal of provision for implementation of e-market systems (2009/2010 only)	(0.025)		
19	Removal of provision for review of shift pattern changes (2009/2010 only)	(0.025)		
20	Other Minor changes(net)	(0.032)	(0.508)	

	Invest-to-Save/Essential Spending Pressures			
21	Business Transformation (invest-to-save)	0.455		
22	Scope the creation of a trading company (invest-to-save)	0.100		
23	Carbon Management Programme (invest-to-save)	0.078		
24	New Post – Technical Accountant	0.038		
25	Temporary Communications Officers to 31/3/2011	0.055		
26	Community Fire Safety Costs to support Group Plans	0.160	0.886	
	TOTAL CHANGES (LINES 1 TO 26)		2.476	3.41%
	CORE REVENUE BUDGET REQUIREMENT 2010/2011		75.135	

REPORT ON PRECEPT CONSULTATION FOR 2010-11 BUDGET

1. BACKGROUND

- 1.1 Section 65 of the Local Government Finance Act 1992 requires precepting authorities to consult non-domestic rate payers on its proposals for expenditure. The Act requires consultation each financial year and that it is completed before the first precept is issued by the authority for the financial year. Before the precept consultation in 2007/08 Communities and Local Government (CLG) were approached and they advised that there is not a statutory requirement to consult domestic ratepayers.
- 1.2 In January 2007 Devon and Somerset Fire and Rescue Service undertook its first precept survey by commissioning a telephone survey to question businesses on the proposed level of precept. This same method was used in 2008, 2009 and again in 2010.

2. SURVEY METHODOLOGY

- 2.1 Whilst there are many different options that could be used for public consultation, the time restriction for completing the survey renders the options of postal survey and focus groups impractical. Therefore, as in previous years a telephone survey was commissioned with an external agency. The survey was conducted between Monday 11 January and Friday 15 January 2010.
- 2.2 The key specifications of the survey were:
- To ask 4 key questions, plus demographic information
 - To collect both closed and open question answers
 - To provide a representative sample by constituent area (i.e. Devon County Council, Plymouth City Council, Somerset County Council and Torbay Council)
- 2.3 The survey sample size is important for quantitative consultation if statistical analysis is to be applied to the results. The sample size is determined by the population, confidence and confidence interval. It is important to set the confidence interval for the survey appropriately with regard to the importance attached to the results. It is important to remove the possibility of chance from the outcomes and to understand the accuracy of the results. A confidence interval of +/- 5% at 95% confidence level be set. At the estimated business population a sample of 400 is required, see Table 1. To further ensure the results were representative of the business population the responses were weighted by constituent authority, employee size band and sector.

Table 1: Population and sample size

Constituent authority	Actual number of businesses	%	Proportionate sample	Adjustment	Proposed sample		Actual response	
					Count	%	Count	%
Devon	30,297	49	196	-16	180	45	158	39
Somerset	21,320	34	136	-16	120	30	144	36
Plymouth	6,200	10	40	+10	50	12.5	49	12
Torbay	4,403	7	28	+22	50	12.5	52	13
Total	62,220	100%	400	0	400	100%	403	100%

(The data on the actual number of businesses contained in Table 1 are produced from the Annual Business Inquiry Workplace Analysis, ONS Crown copyright Reserved [from Nomis on 5 January 2010])

3 RESULTS

3.1 1392 businesses were contacted to participate in the survey from which:

- 403 (29%) businesses completed the survey
- 516 (37%) businesses declined to participate
- 473 (34%) numbers unobtainable/incorrect/no answer

Question 1 asked: 'For 2010/11 Devon and Somerset Fire and Rescue Authority is estimating a Council Tax increase of no more than 4% to maintain current standards of service. This would set a Council Tax figure of £71.95 per year per band 'D' property, an increase of 23p per month (£2.77 per year). Do you consider £71.95 to be value for money?'

3.2 82% of respondents agreed that the proposed charge did represent value for money and 18% felt it wasn't. Table 2 illustrates that fewer respondents from Plymouth considered the proposed level of Council Tax to be value for money when compared with respondents from the other constituent authority areas.

Table 2: Responses to Question 1 by Local Authority Area.

Response	Plymouth		Devon		Torbay		Somerset	
	Count	%	Count	%	Count	%	Count	%
Yes	25	76%	145	80%	22	81%	109	87%
No	8	24%	36	20%	5	19%	16	13%
Total	33	100%	181	100%	27	100%	125	100%

3.3 When compared against the results from the previous surveys it is observed that for the first time in four years more respondents considered the proposed level of Council Tax to be value for money, see Table 3.

Table 3: Question 1 Do you consider '£x' to be value for money? - Comparison between results in 2007/08, 2008/09, 2009/10 and 2010/11

Response	2007/08 Proposed Council Tax £63.45	2008/09 Proposed Council Tax £66.58	2009/10 Proposed Council Tax £69.81	2010/11 Proposed Council Tax £71.95
Yes	79%	75%	68%	82%
No	21%	25%	32%	18%
Total	100%	100%	100%	100%

3.4 There were 21 comments received from respondents on this question. The general themes of the comments were:

- Not sure if it is value for money (6)
- A rise is ok as it is an essential service (4)
- All the different taxes add up to too much money (3)
- It is too high already (2)
- Would need to know how the money is being spent to answer the question (2)
- The current tax funds need allocating better to the different organisations (1)
- There needs to be more accountability for how public money is spent (1)
- There should be no rise in the current financial situation (1)
- There should be no rise as inflation has not gone up (1)

Question 2 asked: 'What percentage increase, based on last year's figure of £69.18, would you consider reasonable?'

3.5 This question was asked if respondents answered 'No' and 'Don't know' to Question 1. Respondents were given the opportunity of answering with options between 2.5% and 4.0%. Of the 82 respondents who answered this question 72% would not find any increase on last years figure of £69.18 to be reasonable with 28% feeling an increase between 2.5% and 4.0% would be reasonable.

Table 4: Question 2 'What percentage increase, based on last year's figure of £69.18, would you consider reasonable?'

Proposed % increase	Number of responses	Response %
4.0%	2	2%
3.5%	1	1%
3.0%	5	6%
2.5%	15	19%
None of above	59	72%
Total	82	100%

3.6 When asked what they would consider reasonable, there were 61 general comments received from respondents on this question. The themes of the comments were:

- There should be no increase, 0% (42)
- Don't know (4)
- There should be a decrease (3)
- 2% (3)
- 1% (2)
- Not in the current financial situation (2)
- 3% (1)
- 0.05% (1)
- As little as possible (1)
- In line with inflation (1)
- The money should come from government (1)
- There are too many taxes (1)

Question 3 asked: 'Would you be prepared to pay £1 more per year per household, in addition to the proposed charge of £71.95 per year, to enable Devon and Somerset Fire and Rescue Service to improve community safety?'

3.7 83% (316) of all respondents said that they would, with 17% (16) of respondents saying they were not prepared to pay an extra £1 to improve community safety.

Table 5: Question 3 'Would you be prepared to pay £1 more per year per household, in addition to the proposed charge of £71.95 per year, to enable Devon and Somerset Fire and Rescue Service to improve community safety?'

Response	Number of responses	%
Yes	316	83%
No	66	17%
Total	382	100%

3.8 There were 9 general comments received from respondents on this question. The themes of the comments were

- DSFRS already do a good job so don't need for more money (1)
- There should be a decrease (1)
- Don't know (1)
- Just because it's the public sector doesn't justify increase (1)
- More money should go towards the actual emergencies (1)
- No, as not getting good value at moment (1)
- Problem is the lack of value get from other organisations (1)
- Yes, along as improvements made (1)
- Yes, but only if get 2 county control rooms (1)

Question 4 asked: 'If you were not prepared pay an extra £1 per year per household, how much would you be prepared to pay?'

- 3.9 All respondents who answered 'No', 'don't know' or 'other comment' to Question 3 were asked how much extra they would be prepared to pay to improve community safety. 80% answered that they would not be prepared to pay anything, 5% would be prepared to pay 0.25p and 15% would be prepared to pay 0.50p.

	Number of responses	%
0.50p	10	15%
0.25p	3	5%
None	52	80%
Total	65	100%

4 CONCLUSION

- 4.1 The results of the telephone survey indicate that there is support for the proposed level of Council Tax and a high proportion of the respondents would be prepared to pay an additional £1 to improve community safety. Over the last three years there had appeared to be a decreasing opinion that the proposed level of Council Tax provides value for money. However, this year for this first time since the survey has started there has been an increase in opinion that the proposed level of council tax provides value for money. Underlying messages are that people consider the proposed level of Council Tax to be value for money and the additional comments indicate that there is concern about increasing Council Tax in the current economic situation. However, there is acknowledgment that as an essential service it is important that DSFRA receives enough funding.

STATEMENT OF THE ROBUSTNESS OF THE BUDGET ESTIMATES AND THE ADEQUACY OF THE DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY LEVELS OF RESERVES

It is a legal requirement under Section 25 of the Local Government Act 2003 that the person appointed as the 'Chief Finance Officer' to the Authority reports on the robustness of the budget estimates and the adequacy of the level of reserves. The Act requires the Authority to have regard to the report in making its decisions.

THE ROBUSTNESS OF THE 2010/2011 BUDGET

The net revenue budget requirement for 2010/2011 has been assessed as £75.135m. In arriving at this figure a detailed assessment has been made of the risks associated with each of the budget headings and the adequacy in terms of supporting the goals and objectives of the authority as included in the Corporate Plan. It should be emphasised that these assessments are being made for a period up to the 31st March 2011, in which time external factors, which are outside of the control of the authority, may arise which may cause additional expenditure to be incurred. A large proportion of retained pay costs, for example, are dependent on the number of call outs during the year. Other budgets, such as fuel are affected by market forces that often lead to fluctuations in price that are difficult to predict. Details of those budget heads that are most at risk from these uncertainties are included in Table 1 below, along with details of the action taken to mitigate each of these identified risks.

TABLE 1 – BUDGET SETTING 2010/2011 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO VOLATILE CHANGES

<u>Budget Head</u>	DRAFT BUDGET 2010/2011 £000	<i>RISK AND IMPACT</i>	MITIGATION
Retained Pay Costs	12,363	<p>Many of the costs associated with retained pay are directly as a result of the number of calls responded to during the year. The level of calls from year to year can be volatile and difficult to predict with certainty. Abnormally high or low levels of calls could result in significant variations against budget provision.</p> <p>In addition, guidance is still awaited relating to the outcome of the Part-Time Workers (less than favourable working conditions) tribunal, which during 2008 ruled in favour of retained firefighters in so much as they should enjoy similar pension and sickness benefits as wholtime firefighters.</p>	<p>In establishing a General Reserve for 2010/2011, allowance has been made for a potential overspend on this budget. The amount is largely based upon the required local contribution to the costs of a major incident covered under the 'Bellwin' Scheme.</p> <p>A 'Provision' of £0.497m has been set aside for the impact of the ruling from the Part Time Workers tribunal. However, until more definitive guidance is released, expected to be during 2010, the full extent of the impact to the Service budget cannot be quantified.</p>

<u>Budget Head</u>	DRAFT BUDGET 2010/2011 £000	<i>RISK AND IMPACT</i>	MITIGATION
		Given the significant number of retained firefighters employed by the Service, and the fact that this ruling will be backdated, potentially to the year 2000, this ruling could have a significant impact on the Service budget.	
Service Control Costs	2,440	<p>In light of the delay in the implementation of the South West Regional Control Centre until 2011, the Service will continue to fund the pay costs of the existing two control rooms in Devon and Somerset for the whole of the 2010/2011 financial year. No provision has been made for any transition costs, however, on the basis that these costs will be fully met from New Burdens grant from the CLG.</p> <p>In addition, no provision has been made for any refresh of existing control systems, in the event that the implementation of the regional control centre is delayed any further.</p>	An earmarked reserve of £0.117m has been established to provide some financial contingency relating to transitional costs associated with the implementation of the regional control centre (RCC), and the Firelink project, particularly the need to keep existing control rooms operational until cutover to the RCC.
Firefighter' s Pensions Scheme	1,940	Whilst the recent change in the funding arrangements for the firefighters pension scheme has removed much of the volatility from the previous pay-as-you-go arrangement, the Authority is still required to fund the costs associated with ill-health retirements, and the potential costs of retained firefighters joining the scheme.	In establishing a General Reserve for 2010/2011 an allowance has been made for a potential overspend on this budget. The figure is based upon a further two ill health retirements during the year; over and above the number budgeted for.

<u>Budget Head</u>	DRAFT BUDGET 2010/2011 £000	<i>RISK AND IMPACT</i>	MITIGATION
		In addition, the Firefighter Pension Scheme has been subject to actuarial review during 2009, the impact of which is not anticipated to be implemented until 2011/2012. Indications are that employer's contributions will need to be increased significantly in 2011.	
Insurance Costs	750	The Fire Authority's insurance arrangements require the authority to fund claims up to agreed insurance excesses. The costs of these claims are to be met from the revenue budget. The number of claims in any one-year can be very difficult to predict, and therefore there is a risk of the budget being insufficient. In addition some uninsured costs such as any compensation claims from Employment Tribunals carry a financial risk to the Authority.	In establishing a General Reserve for 2010/2011, allowance has been made for a potential overspend on this budget. The amount is largely based upon the occurrence of one aerial platform appliance being totally written-off.
Income	(1,099)	Whilst the authority has only limited ability to generate income, the extent to which income budgets are achievable will be dependent on the full impact of the economic downturn. The delivery of income targets from external training activities and investment income, in particular, are at risk.	Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible. In addition, the assessment of the level of general reserve for 2010/2011 has made some allowance for a reduction in income.
Capital Programme	6,847	Capital projects are subject to changes due to number of factors; these include unforeseen ground conditions, planning requirements, necessary but unforeseen changes in design, and market forces.	Capital projects are subject to risk management processes that quantify risks and identify appropriate management action. Any changes to the spending profile of any capital projects will be subject to Committee approval in line with the Authority Financial Regulations.

Whilst there is only a legal requirement to set a budget requirement for the forthcoming financial year, the Medium Term Financial Plan (MTFP) provides forecasts to be made of indicative budget requirements over a three year period covering the years 2010/2011 to 2012/2013. These forecasts include only prudent assumptions in relation future pay awards and prices increases, which will need to be reviewed in light of pay settlements and movement in the Prices Index.

Given the uncertainty over future public spending and the potential for significant reductions in local authority grant levels from 2011/2012, the setting of the 2010/2011 budget has been very mindful of the likely funding scenarios over the next three years rather than just 2010/2011. Therefore the budget for 2010/2011 has included some new invest-to-save funding to commence the implementation of changes identified from the business transformation reviews.

THE ADEQUACY OF THE LEVEL OF RESERVES

It should be noted that 2010/2011 is only the seventh year that Combined Fire and Rescue Authorities have had the legal power to hold reserves. This new power emanates from the legislative change from 2004/2005 that gave Combined Fire and Rescue Authorities major precepting status. This being the case a strategy was adopted, by the then Devon FRA, to build Reserve levels up over a period of time, as the only funding available to build up the Reserve balance to recommended levels was to make contributions from the Revenue budget.

The current level of General Reserve balances for the authority is £4.453 million, which represents 6.1% of the revenue budget. Should there be an underspend against this years budget, current forecast is for an underspend of £0.494m, then, subject to other Service priorities required to be funded from this figure, then the level of General Reserve could increase up to a figure of approximately £5m by 1st April 2010, representing 6.6% of the 2010/2011 revenue budget.

In terms of a strategy for Reserve balances, the Authority has adopted an “in principle” strategy to maintain the level of reserves at a minimum of 5% of the revenue budget for any given year, with the absolute minimum level of reserves only being breached in exceptional circumstances, as determined by risk assessment. This does not mean that the Authority should not aspire to have more robust reserve balances based upon changing circumstances, but that if the balance drops below 5% (as a consequence of the need to utilise reserves) then it should immediately consider methods to replenish the balance back to a 5% level.

It is, of course, pleasing that the Authority has not experienced the need to call on reserve balances in the last three years to fund emergency spending. This has enabled the balance, through budget underspends, to be increased to a level in excess of 5%. However, the deterioration of the banking system and the potential loss of local authority investments from the Icelandic banks provide a stark reminder of why reserve balances are needed. While this Authority is not directly impacted by the Icelandic bank situation (as these banks are not included on the list of financial institutions the Authority invests with), it was exposed by the problems of Northern Rock at the time that that bank was in trouble during 2007. As a consequence of the Icelandic bank position the Chartered Institute of Public Finance and Accountancy (CIPFA) immediately introduced a new Local Authority Accounting Principle in November 2008 (LAAP 77) bulletin to provide further guidance to local authority chief finance officers on the establishment and maintenance of local authority reserves and balances, which should be followed as a matter of course. Whilst this bulletin ‘stopped short’ of advising of a minimum level of reserves, it acted as a further reminder that it is for the authority, on the advice of the chief finance officer, to make their own judgements on such matters based upon local circumstances

The impact of flooding and the problems experienced by the global financial markets are just two examples, highlighted within the bulletin, of external risks which local authorities may need to take into account in setting levels of reserves and wider financial planning.

It should also be emphasised that this Authority is placed in the lower quartile when compared to all fire and rescue authorities. The average reserve balance for all FRAs is 13.5% of revenue budget, with the Upper Quartile being 15.0% and Lower Quartile 8.0%. Consequently, even at 6.6% the Authority's reserve level is still the fourth lowest of all combined fire and rescue authorities in the country, positioning the Authority at 29 out of 33.

Given the current economic climate and the increased risk to the Service budget from the impact of the economic downturn, it is my view that the Authority should seek to protect reserve balances, as much as possible, to provide added financial stability through what is anticipated to be a turbulent period.

CONCLUSION

It is considered that the budget proposed for 2010/2011 represents a sound and achievable financial plan, and will not increase the Authority's risk exposure to an unacceptable level. The estimated level of reserves of £5m is judged to be adequate to meet all reasonable forecasts of future liabilities.

KEVIN WOODWARD
Treasurer