



DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	DSFRA/11/3
MEETING	DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY (BUDGET MEETING)
DATE OF MEETING	14 FEBRUARY 2011
SUBJECT OF REPORT	2011-2012 REVENUE BUDGET AND COUNCIL TAX LEVEL
LEAD OFFICER	Treasurer and Chief Fire Officer
RECOMMENDATIONS	<p>(a) <i>That the following recommendation of the meeting of the Resources Committee, held on 28 January 2011, be approved;</i></p> <p>(i) <i>the level of council tax in 2011-12 for a Band D property be frozen at the 2010-11 level of £71.77, as outlined as Option B in paragraph 4.2 of this report;</i></p> <p>(ii) <i>a Net Revenue Budget Requirement of £75,141,300 for 2011-12 be set;</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 £43,942,942, 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 £43,942,942, 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 D 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 28 January 2011, in relation to the levels of revenue budget and council tax for 2011-2012.</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. Proposed Net Revenue Budget Requirement 2011-12. B. Summary of Medium Term Financial Plan (MTFP) Scenario Modelling. C. Report on Precept Consultation for 2011-12 Revenue Budget. D. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances.
LIST OF BACKGROUND PAPERS	Report RC/11/2 Revenue Budget and Council Tax Level 2011-12 to Resources Committee 28 January 2011.

1. INTRODUCTION

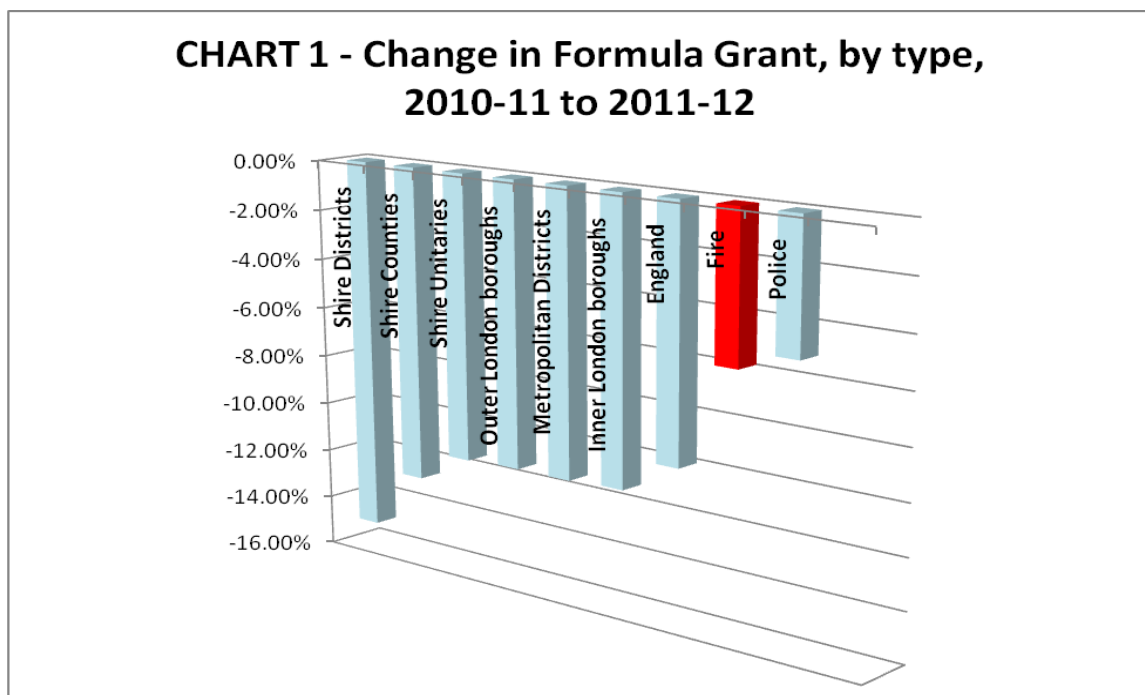
- 1.1 It is a legislative requirement that the Authority sets a level of revenue budget and council tax for the forthcoming financial year, before 1 March, in order that it can inform each of the 15 council tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2011-2012. The purpose of this report is to provide Members with the necessary financial background, in order that consideration can be given as to what would be appropriate levels for the Authority.
- 1.2 The Resources Committee, at its meeting held on 28 January 2011, considered this issue and resolved to recommend to the Authority that the council tax level for 2011-12 be frozen at the 2010-11 level of £71.77 for a Band D Property, which would enable the budget requirement to be set at £76,239,900 (amended from the figure of £76,241,000 approved by the Resources Committee, as a result of a minor reduction of £1k in the 2011-12 grant allocation, as included in the final Local Government Finance Settlement announcement made on the 31 January 2011 and after the meeting of Resources Committee).
- 1.3 If the Authority is minded to approve a freeze in council tax at £71.77 then this will attract the receipt of a council tax freeze grant of £1,098,600 from the government, equivalent to the amount of precept that would have been generated from an increase in council tax of 2.5%. This government have stated that this sum will be paid for the period of CSR i.e. 2011-12 to 2014-15. The application of this grant reduces the Net Revenue Budget Requirement for 2011-12 to £75,141,300 (£76,239,900 less £1,098,600).

2. COMPREHENSIVE SPENDING REVIEW 2010 (CSR 2010)

- 2.1 Members will be well aware of the economic background which has led to the government announcing its plans to reduce the national structural deficit over the next four years by 2014-2015. The Spending Review in October 2010 provided specific details of how public spending would be reduced over the next four years from 2011-2012, including significant reductions in local authority grants over this period.
- 2.2 For fire and rescue authorities CSR 2010 announced reductions in government grants of 25% by 2014-15, representing a real terms reduction in spending of 13% by 2014-15, bearing in mind that, on average, government grant funding represents 50% of total fire and rescue spending.
- 2.3 A 25% reduction in government grants obviously represents a significant reduction in future funding streams and will require fire and rescue authorities to put plans in place to have delivered significant reductions in spending over the CSR 2010 period. However, the Fire Service has been provided with some protection as, unlike other local authorities, the reductions have been weighted so that they are back-loaded to 2013-14 and 2014-15, in order that fire and rescue authorities are given time to implement changes without affecting the quality and breadth of service to communities.
- 2.4 The CSR announcement also confirmed details of a new grant known as Council Tax Freeze Grant which will be paid to those authorities who set a zero per cent or less, increase in council tax for 2011-12. The amount of grant payable will be equivalent to the amount of precept income that would have been generated from setting a council tax increase of 2.5%. For Devon and Somerset FRA this figure equates to £1.099m. The government have made a commitment to continue to pay this grant for the four year period of the CSR period, but there is no guarantee that this grant will continue beyond 2014-15.

3. LOCAL GOVERNMENT FINANCE SETTLEMENT 2011-12 AND 2012-13

- 3.1 The provisional Local Government Finance Settlement for 2011/2012 was announced on the 13 December 2010. This announcement provided local authorities with individual grant allocations for the next two financial years 2011-12 and 2012-13. The reason that grant figures have only been released for the next two years, rather than the whole four-year period of CSR 2010, is that the government has announced its intention to fundamentally change the way local authorities are to be funded from 2013-14. It is expected that details of the changes to be made will be consulted on during 2011.
- 3.2 The announcement was only provisional as it was subject to the normal consultation period which ended on the 17 January 2011. During the consultation period each local authority had an opportunity to challenge the provisional allocations. The final grant settlement figures were announced on the 31 January 2011. These final figures were broadly the same as the provisional allocations with some minor changes to correct inconsistencies with data.
- 3.3 The settlement announced average government grant reductions for England in 2011-12 of -9.9% when compared to 2010-11, and reductions of -7.8% in 2012-13 when compared to 2011-12. For fire and rescue authorities, however, the reductions are not so severe, -5.8% in 2011-12 and a further -0.7% in 2012-13. Chart 1 below illustrates the reductions in grant in 2011-12 for Fire as compared to other local authority groups.



- 3.4 Chart 1 clearly illustrates that Fire will receive lower reductions in funding in 2011-12 than other groups, which is consistent with the government commitment that the larger reductions in Fire funding will be back-loaded to 2013-14 and 2014-15.

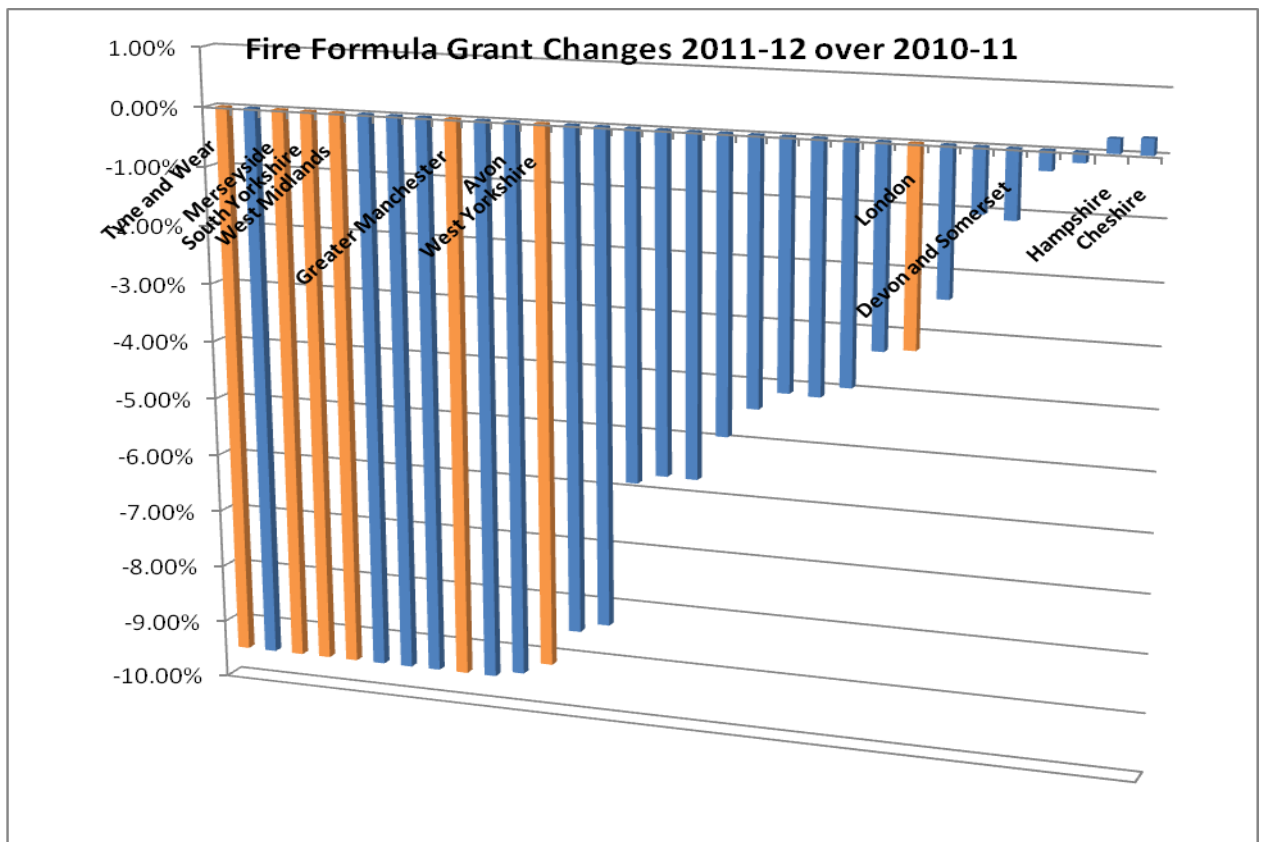
Impact of Final Grant Settlement to Devon and Somerset FRA

- 3.5 The actual reduction in grant for Devon and Somerset FRA in 2011-12 is -1.1% over 2010-11, and an increase of +1.9% in 2012-13 over 2011-12. Table 1 below provides a summary of the grant allocations. These figures reflect minor changes from the provisional allocations of -£1k in 2011-12 and +£2k in 2012-13.

TABLE 1 – FINAL GRANT SETTLEMENT FIGURES	£m	%
Formula Grant 2011-12	30.894	
Reduction over 2010-11 Grant	(0.351)	-1.1%
Formula Grant 2012-13	31.485	
Increase over 2011-12 Grant	0.591	+1.9%

3.6 These allocations are certainly more favourable than had had been anticipated, which is as a consequence of the government introducing changes to the way Fire Formula grant is distributed. A number of changes have been made which, in general, benefit the more rural authorities such as Devon and Somerset FRA, primarily at the expense of the larger urban FRA's, who are suffering much larger reductions in grant (-9.5%) in 2011-12. Members will be well aware that this Authority has been very active for a number of years in challenging the CLG that the previous distribution formula was flawed, which, in particular did not reflect the additional costs of providing a fire and rescue service in a sparse rural area. It is very pleasing therefore that the government has finally introduced changes which we believe makes the distribution methodology more equitable. Chart 2 below provides an analysis of changes in grant for all FRA's in 2011-12.

CHART 2



3.7 Chart 2 illustrates that whilst the average reduction in grant for Fire is -5.8% the range of reductions are from -9.5% (ten FRAs) to +0.26% (Cheshire FRA). As the government has set a floor of -9.5% no FRA has suffered a reduction of more than -9.5%.

Capping

- 3.8 The government has already published a consultation document setting out its intentions to abolish the capping system from 2012-13. Capping has been in place for a number of years and used as a means of government intervening where authorities are deemed to have set excessive increases in council tax. From 2012-13 capping will be replaced with a new system which will give local residents the powers to veto excessive increases in council tax through a local referendum.
- 3.9 As the new system will not be in place until the financial year 2012-13, the government has emphasised as part of the grant settlement that it will continue to use its capping powers in 2011-12 for those authorities which are deemed to have set excessive increases in council tax.

4. PROPOSED COUNCIL TAX AND BUDGET REQUIREMENT 2011-2012

Council Tax

- 4.1 The government has laid out its expectations that local authorities set a zero percent increase in council tax in 2011-12. To encourage authorities to do this the government has introduced the new grant of Council Tax Freeze Grant, which will be paid to those authorities that set a zero per cent increase, or less, in council tax for 2011-12. It should be emphasised that it is still an Authority decision to set a level of council tax that is appropriate to its funding position, and indeed it is voluntary as to whether the Authority agrees to accept the grant available.
- 4.2 As is stated earlier in this report the government has emphasised that it will use capping powers available to them to those authorities that set excessive increases in budget and council tax in 2011-12. At the time of writing this report the capping principles to be used by the government are not known, but are expected to have been announced by the date of this meeting. However, given that it has been announced that the amount of new Council Tax Reward Grant will be equivalent to an increase of 2.5% in council tax in 2011-12, it is likely that this is the level to be used as the benchmark for capping considerations. With this in mind this report contains two options in terms of setting a level of council tax for 2011-12.

Option A - To increase council tax for a Band D property in 2011-12 by 2.5% over 2010-11 - This would increase council tax from its current level of £71.77 to £73.56, representing an increase of £1.79.

Option B - To freeze council tax for a Band D property in 2011-12 at the same level as 2010-11 - This would freeze council tax at its current level of £71.77, and result in the Authority being entitled to receive Council Tax Freeze Grant equivalent to the amount of precept that would have been generated from an increase in council tax by 2.5%. For Devon and Somerset FRA the amount of reward is £1.099m, which will be paid for each of the four financial years covered by CSR 2010 i.e. 2011-12 to 2014-15.

- 4.3 Each option results in the same level of revenue budget for 2011-12, so in terms of spending power there is no difference between the two options. The advantage of choosing Option A is that the £1.099m of additional precept generated by increasing council tax by 2.5% will be built into base and will therefore be available for the Authority to spend in all future annual budgets. Option B however only guarantees that the £1.099m will be available to spend up until 2014-15, and therefore does carry the risk that in the event that the reward grant ceases from 2015-16, the Authority will be in the position of having to make the decision in 2015-16 of either increasing council tax to make up the shortfall or identifying further savings of £1.099m in that year.

- 4.4 Whilst Option B does carry with it some risk, given that the Authority grant settlement for 2011-12 and 2012-13 is more favourable than had been anticipated, and also given our responsibility to our council taxpayers to contain council tax increases whenever possible, it is the recommendation of this report that the Authority selects this option and agrees to freeze council tax for a Band D property at the 2010-11 level of £71.77.
- 4.5 A council tax for a Band D property at £71.77 will result in total funding of £76.240m being available to fund revenue spending in 2011-12. Table 2 below illustrates how this figure is calculated.

<u>TABLE 2 – SUMMARY OF REVENUE FUNDING AVAILABLE 2011-12 COMPARED TO 2010-11</u>	2010-11 £m	2011-12 £m	Change £m
Government Grant	31.245	30.894	-0.351
Council Tax Precept (based on council tax of £71.77 for a Band D property)	43.705	43.943	+0.238
Surplus on Billing Authority Council Tax Collection Funds	0.185	0.304	+0.119
Council Tax Freeze Grant	-	1.099	+1.099
<i>TOTAL FUNDING AVAILABLE</i>	75.135	76.240	+1.105

Budget Requirement 2011-12

- 4.6 As is illustrated in Table 2 to freeze council tax at its current level of £71.77 results in funding of £76.240m being available to set a Revenue Budget Requirement for 2011-12. To set the budget for 2011-12 at £76.240m represents an increase of £1.105m, or 1.47%, over the 2010-11 agreed budget of £75.135m. Table 3 overleaf provides a summary of a proposed revenue budget for 2011-12 on the basis of setting the budget at this level. A breakdown of the more detailed changes included in this draft budget are included in Appendix A, and a budget booklet is enclosed separately with this report which provides further analysis of the proposed budget by subjective budget headings.

<u>TABLE 3 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2011-2012</u>	£m	%
Approved Net Revenue Budget Requirement 2010-2011	75.135	
PLUS Provision for pay and price increases (items 1 to 4 included in Appendix A to this report)	0.081	
PLUS Inescapable Commitments (items 5 to 10 included in Appendix A to this report)	1.288	
MINUS One-off investments in 2010-11 (items 11 to 16 included in Appendix A to this report)	(0.800)	
PLUS Invest-to-Save/Essential Spending Pressures (items 17 to 19 included in Appendix A to this report)	1.578	
CORE SPENDING REQUIREMENT 2011-2012	77.282	
MINUS Budget Reductions (items 20 to 26 included in Appendix A to this report)	(1.042)	
REVENUE BUDGET REQUIREMENT 2011-2012	76.240	
INCREASE IN BUDGET OVER 2010-2011 (£m)		1.105
INCREASE IN BUDGET OVER 2010-2011 (%)		1.47%

Invest-to-Save/Essential Spending Pressures

- 4.7 In constructing the budget requirement for 2011-12 an amount of £1.578m has been included for new investment in the Service. In assessing how this sum is to best utilised Senior Management Board has adopted the strict criteria that any new investment has to contribute towards the Business Change and Improvement Programme and/or contribute to plans to reduce spending by 2014-15.
- 4.8 From the range of new investment bids that have been received from budget managers the following three areas of investment are proposed.
- I. **Change and Improvement Programme (invest-to-save)** – an amount of £0.740m has been identified as the minimum requirement in 2011-12 to support the significant work required to bring about the changes within the Service that will contribute to the budget reductions by 2014-15. The majority of this sum will be required to fund the staffing costs of the programme and project management arrangements established to govern and implement the change programme, and also investment in new IT systems. It is anticipated that the significant savings to be delivered from this programme will begin to be realised during 2011-12.

- II. **Revenue Contribution to Capital Spending (invest-to-save)** - elsewhere on the agenda is a separate report proposing a revised capital programme for the years 2011-12 to 2013-14. The proposed programme has been constructed on the basis of keeping within prudential code limits and, in particular, containing as much as possible the Authority's exposure to external borrowing, now and into the future, and keeping debt charges within a 5% limit of the revenue budget. This is achieved by reducing overall capital spending in the period 2011-12 to 2013-14, and making a contribution of £1.5m from the revenue budget (£0.750m in 2011-12 and £0.750m in 2012-13). If this revised programme is approved then it is forecast that annual savings in debt charges of £0.427m will be achieved by 2013-14.
- III. **Replacement Training System** – the existing training and course management system (RTIX) is no longer supported by the supplier and a replacement system is therefore required urgently, estimated cost of £0.088m. It is important that the replacement system forms part of the Service integrated ICT strategy and minimises duplication of effort and data, and streamlines processes.

5. **MEDIUM TERM FINANCIAL PLAN**

- 5.1 In formulating the net budget requirement for the next financial year, an assessment has also been made of the indicative core budget requirements for the following three years, i.e. 2012-13 to 2014-15. This assessment has provided indicative budget figures of £78.0m for 2012-13, £79.0m for 2013-14 and £80.8m for 2014-15. Table 4 provides a summary of how these figures have been constructed.

<u>TABLE 4 – SUMMARY OF SPENDING REQUIREMENT 2011-12 to 2014-15</u>	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m
Approved Net Revenue Budget Requirement 2010/2011	75.135	75.135	75.135	75.135
Provision for pay and price increases	0.081	1.342	2.930	4.556
Inescapable Commitments	1.288	1.691	1.837	1.989
One-off investments in 2010-11	(0.800)	(0.875)	(0.875)	(0.875)
Invest-to-Save	1.578	0.750	-	-
CORE SPENDING REQUIREMENT	77.282	78.043	79.027	80.805

- 5.2 Clearly it is difficult to provide forecasts into future years with absolute certainty, particularly in relation to future pay awards, inflationary increases and changes in pension costs. Key assumptions have therefore had to be made in these forecasts which will inevitably be subject to change. However, these figures are considered prudent forecasts of future budgets which can be used to refresh the Authority's Medium Term Financial Plan (MTFP) to inform financial planning and provide updated forecasts of the levels of budget reductions required by 2014-15 to balance the budget.

6. PLANS TO ACHIEVE BUDGET REDUCTIONS 2011-12 TO 2014-15

6.1 As is stated earlier in this report the Local Government Grant Settlement has provided details of grant allocations for the next two years. In the event, the Authority has had a more favourable settlement for those two years than had been anticipated, which is to be welcomed. However the grant reductions for 2013-14 and 2014-15 have not been announced at FRA level, which leads to uncertainty as to the scale of budget reductions that the Authority will be required to have delivered by 2014-15. Of course, what we do know is that the grant reductions for Fire have been back-loaded so the more severe reductions are still to come in 2013-14 and 2014-15.

6.2 Whilst we cannot be certain of the scale of budget reductions, the MTFP financial modelling tool can be used to assess what is considered to be 'best case' and 'worst case' scenarios. This modelling has forecast the scale of reductions required by 2014-15 to be between -4.5m (best case) and -£9.2m (worst case). Appendix B provides a summary of this modelling including key assumptions used in each case e.g. likely grant reductions and council tax increases.

6.3 Members will be well aware that plans to deliver the savings by 2014-15 are well advanced, and that we plan to meet our budget shortfall through: 1) **improving efficiency** 2) **reducing spending** and 3) **generating income**.

1) **Improving efficiency by:** -

- Better management and control of spending and suppliers,
- Sharing managers and operational/business support functions,
- Changing how we respond to co-responder calls for the ambulance service.
- Providing better targeted prevention advice.
- Buying slightly smaller fire engines for relevant areas.
- Commencing discussions with staff as to how we can make the existing shift system work better rather than imposing a new shift pattern/start finish times.
- Savings from reductions in the senior management team in 2010.
- Managing with fewer operational and non operational staff (standardising crewing levels in Somerset & Devon, introducing Day Crewed Plus and improving business processes).

2) **Reducing costs:** -

- Risk managed approach to reduce spend.
- Not attending repeated false alarms from the same premises and/or charge for repeated defective alarm system call outs.
- Ending the Regional Management Board (a political body).
- Reducing spending by Councillors.
- Pay restraint (recognising national conditions of service apply).
- Using money saved in 2010/11 as a result of tight budget management (ring fenced reserves).

3) **Generating income:** -

- Selling training and other functions to others

- 6.4 Many of these savings proposals have been identified from the findings of the two fundamental reviews which have been undertaken over the last two years, the first of which has been to review Service Delivery, and the second to examine Service Support areas. Officers are confident that this package of proposals can be implemented over the next four years in order to secure the necessary budget reductions by 2014-15.
- 6.5 The process has of course already started. This report already proposes a range of budget reductions of £1.042m to be delivered in 2011-12 (Appendix A items 20 to 26), all of which are on-going savings and will therefore contribute to the total savings requirement by 2014-15.
- 6.6 Elsewhere on the agenda is a separate report which considers a revised capital programme for the period 2011-12 to 2013-14. This report proposes a revision to the capital programme which reduces debt charges from new borrowing by an amount of £0.427m by 2013-14. The budget reduction forecasts included in paragraph 6.2 have already been adjusted to reflect this saving, on the basis that this revised programme is approved.
- 6.7 Looking further ahead, the recent launch of the draft Corporate Plan for 2011-12 to 2013-14 includes some of the proposals for budget reductions. This Plan is currently undergoing a consultation period to May 2011. On completion of this consultation period, a further report will be brought back to this Committee to report on the feedback from the consultation and how this will be used to shape our budget reduction plans.

7. PRECEPT CONSULTATION 2011-12

- 7.1 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 that, every financial year, consultation be completed before the first precept is issued by the authority for that financial year. The Department for Communities and Local Government (CLG) previously advised that there is no statutory requirement to consult the general public on this matter.
- 7.2 Telephone surveys have been used to undertake the business precept surveys because of the short timescale to complete the research. It was decided that this proven methodology should be adopted again for 2011/12. The key specifications for the survey were:
- To ask 4 key question plus demographic information;
 - To collect answers to both closed and open questions;
 - To provide a representative sample by constituent area (Devon County Council; Plymouth City Council; Somerset County Council; and Torbay Council).
- 7.3 At its meeting on 16 December 2010 the Devon and Somerset Fire and Rescue Authority (DSFRA) approved the reduction of the business sample size to 100, minute 46 refers. This provides a confidence interval of +/- 9.8% at the 95% confidence level. The survey was undertaken between 4th and 14th January 2011.
- 7.4 Below are the top line results that reveal:
- the majority of respondents, 77% (79), agreed that, in response to the government's request, the Council Tax charge should not be increased (see table 5.1); and that

- 79% (81) agreed that Devon and Somerset Fire and Rescue Service (DSFRS) provide value for money at a total annual budget equating to £135.66 per household (see table 5.2).

Table 5.1 – Responses to Question 1: ‘The coalition government has requested that local authorities do not increase their council tax charges for 2011/12. In response to the government’s request, do you agree or disagree that Devon and Somerset Fire and Rescue Authority should NOT increase (i.e. 0%) their council tax charge for 2011/12?’

Response	Number	Percentage
Agree	79	77%
Neither Agree nor Disagree	13	13%
Disagree	9	9%
Don’t Know	2	2%
Total	103	101%*

* Percentages may add up to 99% or 100% due to rounding down or up

Table 5.2 – Responses to Question 2: ‘Devon and Somerset Fire and Rescue Service’s total annual budget equates to £135.66 per household across Devon and Somerset. Do you agree that DSFRS provides value for money?’

Response	Number	Percentage
Agree	80	79%
Neither Agree nor Disagree	15	14%
Disagree	4	3%
Don’t Know	4	4%
Total	103	100%

7.5 For Question 2, the cost quoted for 2011, £135.66 was calculated from the total revenue budget and capital budgets to provide a total cost of running the service per household. In previous years’ questions the cost indicated represented only the Council Tax charge for a Band ‘D’ property. This change was made to meet legislative requirements and to provide rate payers with a more accurate assessment of the costs of DSFRS.

7.6 The results of the telephone survey indicate that, despite the higher cost presented for the value for money question, the level of agreement remained high and was above the average level (76%) set over the last four years. Although the current cost of the service to rate payers is seen as being value for money, there is a high level of support for the government’s proposal to freeze the Council Tax charge for 2011/12. A small number of respondents expressed some concern about the negative impact on service delivery and fire fighter safety if there was no increase in the Council Tax. A full report on the survey results is provided in Appendix C.

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

- 8.1 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 D to this report.

9. SUMMARY

- 9.1 The Authority is required to set its level of revenue budget and council tax for 2011-2012 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 2011-2012. 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.

- 9.2 The report recommends that the Authority agrees to freeze the 2011-12 council tax for a Band D Property at the 2010-11 level of £71.77 (Option B paragraph 4.2), resulting in a Net Revenue Budget Requirement of £75,141,300 for 2011-12. 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

APPENDIX A TO REPORT DSFRA/11/3

DRAFT REVENUE BUDGET REQUIREMENT 2011-2012

		£m	£m	%
	Revenue Budget 2010-2011		75.135	
	<u>Provision for Pay and Prices</u>			
1.	Uniformed Pay - July 2010 (budgeted 1.0% LESS actual of 0.00%) - July 2011 (assumed 0.0%)	(0.350) 0.000		
2.	Non-Uniformed Pay - April 2009 (budgeted 1.0% LESS actual of 0.0%) - April 2011 (assumed 0.0%)	(0.113) 0.000		
3.	Provision for prices increases (assumed CPI of 3.0%) plus additional allowance for fuel, utilities and non-domestic rates)	0.484		
4.	Provision for inflationary increase in pension costs.	0.060		
			0.081	
	<u>Inescapable Commitments</u>			
5	Additional debt charges arising from proposed capital programme	0.193		
6	Pay increments and other pay changes	0.592		
7	Replacement of obsolete Hand Held Radios	0.200		
8	Enhanced Breathing Apparatus Training to comply with Fire Service Circular 18/2009	0.165		
9	Additional rates costs relating to new fire stations	0.073		
10	Other minor costs(net)	0.065		
			1.288	
	<u>One-off Provisions included in 2010-11 Budget</u>			
11	Removal of Temporary Posts	(0.098)		
12	Installation of Airwave radios	(0.112)		
13	Document Records Management System	(0.030)		
14	Business Change Programmes	(0.455)		
15	Enabling works to install station end equipment	(0.034)		
16	Training Costs associated with Mobile Data Terminals (MDTs)	(0.071)		
			(0.800)	
	<u>Invest-to-Save/Essential Spending Pressures</u>			
17	Change and Improvement Programme (invest-to-save)	0.740		
18	Revenue Contribution to Capital Spending (invest-to-save)	0.750		
19	Replacement Training system	0.088		
			1.578	
	CORE SPENDING REQUIREMENT 2011-2012		77.282	
	<u>Proposed Budget Reductions</u>			
20	Vacancy Management	(0.425)		
21	Efficiency Savings identified from devolved budget holders	(0.342)		
22	Dissolution of Regional Management Board	(0.025)		
23	Restructure of Senior Management Board in 2010	(0.050)		
24	Changes to mobilisation arrangements to co-responder and Automatic Fire Alarm (AFA) calls	(0.075)		
25	Share Management Support/Back office functions	(0.025)		
26	Surplus income from Trading Arm	(0.100)		
			(1.042)	
	TOTAL CHANGES (LINES 1 TO 26)		1.105	1.47%
	REVENUE BUDGET REQUIREMENT 2011-2012		76.240	

APPENDIX B TO REPORT DSFRA/11/3

MEDIUM TERM FINANCIAL PLAN – FORECAST BUDGET REDUCTIONS

SCENARIO A – BEST CASE

KEY ASSUMPTIONS	2011/12	2012/13	2013/14	2014/15
PAY AWARD	0.0%	2.0%	2.0%	2.0%
INFLATION	3.0%	3.0%	3.0%	3.0%
GOVERNMENT GRANT REDUCTIONS OVER FOUR YEARS (OVER AND ABOVE 2010-11)	(1.1)% Actual	0.1% Actual	(5.0%) Forecast	(10.0%) Forecast
INCREASE IN COUNCIL TAX	0.0%	2.0%	2.0%	2.0%
CORE SPENDING REQUIREMENT (£m)	77.2	78.0	79.0	80.8
GOVERNMENT GRANT (£m)				
- Formula Grant	(30.9)	(31.4)	(29.7)	(28.1)
- Council Tax Precept	(44.2)	(45.1)	(46.0)	(47.1)
- Council Tax Freeze Grant	(1.1)	(1.1)	(1.1)	(1.1)
TOTAL FUNDING	(76.2)	(77.6)	(76.8)	(76.3)
FORECAST SAVINGS REQUIRED (£m)	(1.0)	(0.4)	(2.2)	(4.5)

SCENARIO B – WORST CASE

KEY ASSUMPTIONS	2011/12	2012/13	2013/14	2014/15
PAY AWARD	0.0%	2.0%	2.0%	2.0%
INFLATION	3.0%	3.0%	3.0%	3.0%
GOVERNMENT GRANT REDUCTIONS OVER FOUR YEARS (OVER AND ABOVE 2010-11)	(1.1)% Actual	0.1% Actual	(12.0%) Forecast	(25.0%) Forecast
INCREASE IN COUNCIL TAX	0.0%	2.0%	2.0%	2.0%
CORE SPENDING REQUIREMENT (£m)	77.2	78.0	79.0	80.8
GOVERNMENT GRANT (£m)				
- Formula Grant	(30.9)	(31.4)	(27.5)	(23.4)
- Council Tax Precept	(44.2)	(45.1)	(46.0)	(47.1)
- Council Tax Freeze Grant	(1.1)	(1.1)	(1.1)	(1.1)
TOTAL FUNDING	(76.2)	(77.6)	(74.6)	(71.6)
FORECAST SAVINGS REQUIRED (£m)	(1.0)	(0.4)	(4.4)	(9.2)

REPORT ON PRECEPT SURVEY RESULTS FOR 2011/12 REVENUE 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 in January 2011.
- 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 In December 2010 Devon and Somerset Fire and Rescue Authority commissioned BMG Research to undertake a Business Opinion Survey, amongst 100 businesses employing less than 250 staff. The purpose of this survey was to assess the opinions of business decision makers on how Devon and Somerset Fire and Rescue Authority should approach setting its budget for 2011/12 and on whether the Service is currently deemed to be providing value for money.
- 2.4 The questionnaire for the survey was provided by Devon and Somerset Fire and Rescue Authority. The contacts for the survey were purchased by BMG Research from a commercial database provider. To ensure the survey was broadly representative, quotas were set by local authority district, number of employees and broad industry sector, with weights correcting any under or over-representation in the final data set.

3 RESULTS

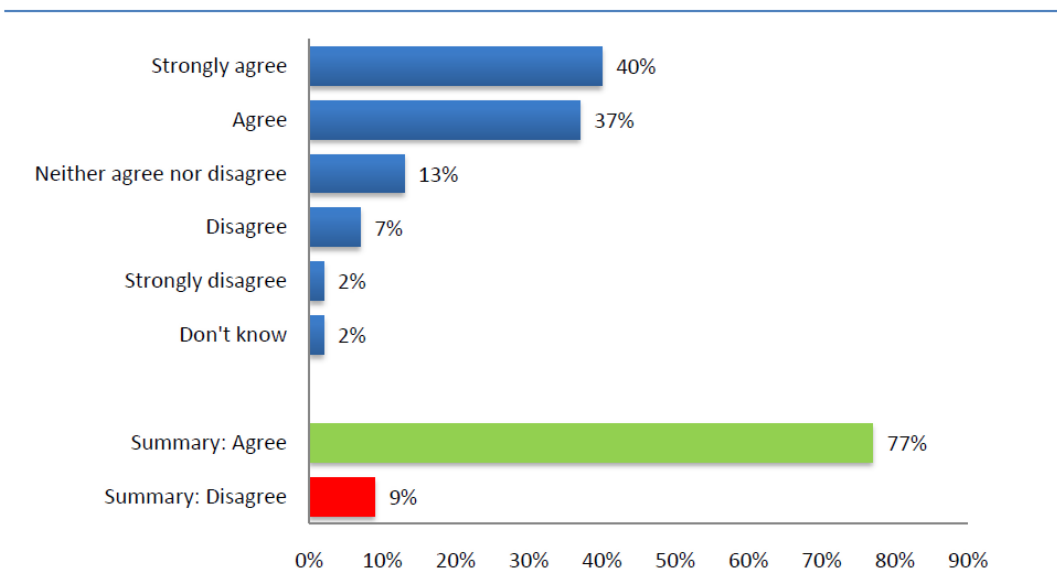
- 3.1 In total, 103 interviews were completed during January 2011 to provide a minimum level of statistical validity while minimising project costs. In 2009, 400 interviews were commissioned in the equivalent survey.
- 3.2 On a sample of 103 the confidence interval at the 95% level is +/- 9.8%. This means that if a statistic of 50% was observed, we can be 95% confident that the true response among the total business population lies between 40.2% and 59.8%.

3.3 This report summarises the main findings from the survey. Because of the reduced sample size commissioned in 2011 and due to considerable changes in the questionnaire content, no comparisons will be made to the previous 2010 survey. Qualitative responses have been reported verbatim and not themed due to the lower sample size.

QUESTION 1 asked: ‘The coalition government has requested that local authorities do not increase their council tax charges for 2011/12. In response to the government’s request, how strongly do you agree or disagree that Devon and Somerset Fire and Rescue Authority should NOT increase (i.e. 0%) their council tax charge for 2011/12?’

3.4 In response to this question respondents were asked how strongly they agree or disagree that Devon and Somerset Fire and Rescue Authority follows this government request and does not increase their council tax charge for 2011/12. Figure 1 shows that the majority (77%) of business respondents are supportive of council tax not being increased next year. Two in five (40%) strongly agree with Devon and Somerset Fire and Rescue Authority taking this approach and a further 37% agree. Fewer than one in ten (9%) respondents disagree with this approach to any extent.

Figure 1: Agreement that council tax charges for 2011/12 should not be increased (All responses)



Unweighted Sample Base: 103

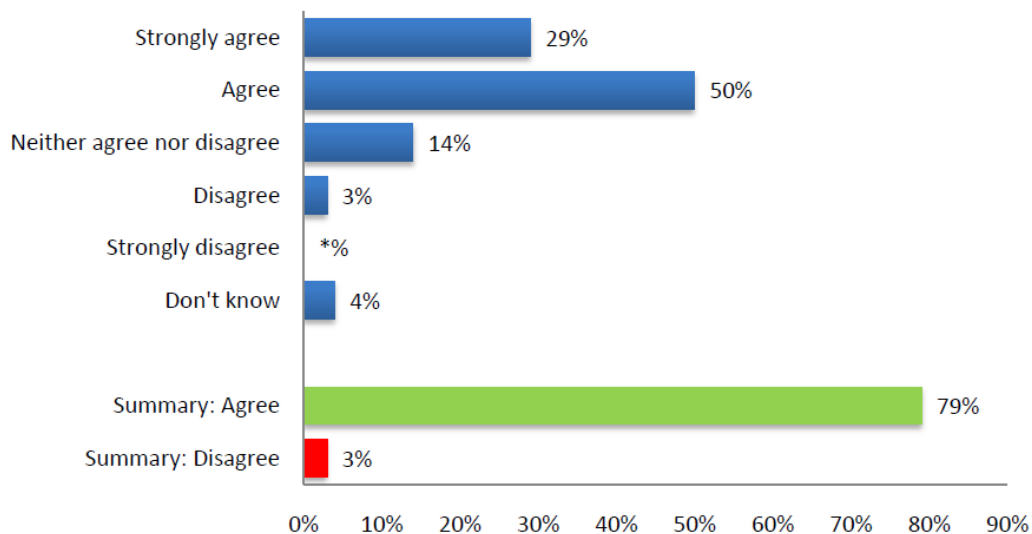
3.5 Among those who disagree that council tax charges should not increase for 2011/12, the reasons given are:

- ‘If risking their lives, they [firefighters] should be paid more than they are.’*
- ‘Personal safety should come before costs cuts’*
- ‘If everything is rising, tax should be equal.’*
- ‘Must determine how they are to run the service properly [and the budget required for this].’*
- ‘If services start to get worse, with less money, there won’t be any good services.’*
- ‘There should be some allowance to increase cost, due to the fact that costs are increasing.’*
- ‘Don’t think it’s right.’*
- ‘Otherwise service will be reduced’*

Question 2 asked: ‘Devon and Somerset Fire and Rescue Service’s total annual budget equates to £135.66 per household across Devon and Somerset. Do you agree that Devon and Somerset Fire and Rescue Service provide value for money?’

3.6 Based on this information and their experience of the service (if any), four in five (79%) respondents agree that Devon and Somerset Fire and Rescue Authority provide value for money, including 29% who give the most positive opinion of strongly agree. Fewer than one in twenty (3%) disagree that Devon and Somerset Fire and Rescue Service provide value for money.

Figure 2: Agreement That Devon and Somerset Fire and Rescue Service provide value for money (All responses)



Unweighted Sample Base: 103

* denotes less than 0.5%

3.7 Disagreement that Devon and Somerset Fire and Rescue Service provide value for money is perceived to be due to the following reasons:

‘Based on their annual budget, per household.’

‘They built a very expensive control centre in Taunton costing us a lot a money per month, and now it’s not being used.’

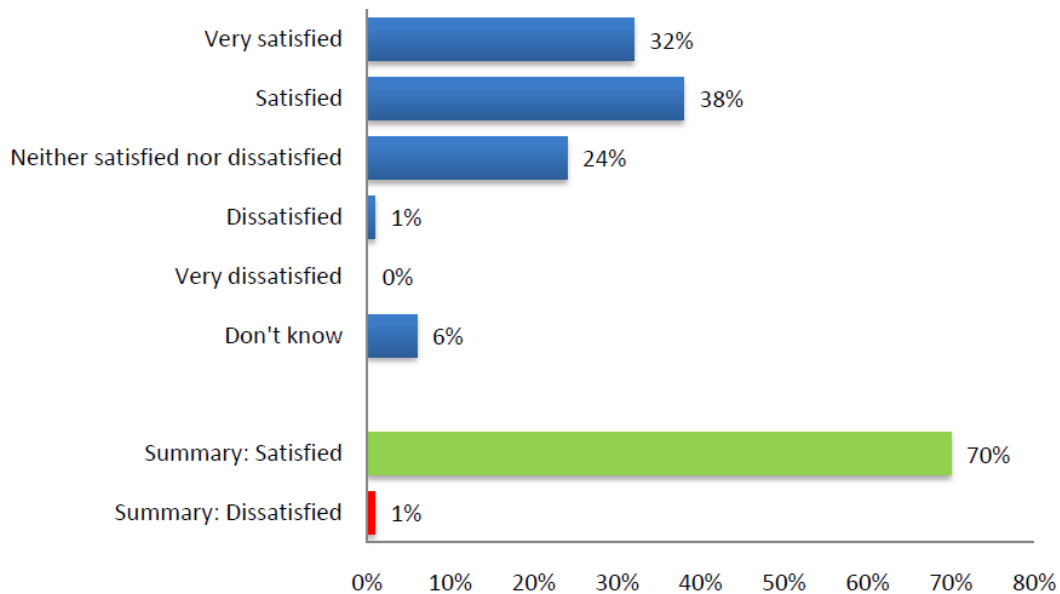
‘On a personal level, I have never had to use them in an emergency. You ask for safety advice and received a leaflet, when wanting a home visit.’

‘They waste money.’

Question 3 asked: How satisfied are you with the service provided by Devon and Somerset Fire and Rescue Service?

3.8 Mirroring the views given in relation to value for money it provides, the majority of business respondents are satisfied with the service provided by Devon and Somerset Fire and Rescue Service. Seven in ten (70%) express satisfaction, including 32% who are very satisfied, while only 1% are dissatisfied.

Figure 3: How satisfied are you with the service provided by Devon and Somerset Fire and Rescue Service? (All responses)

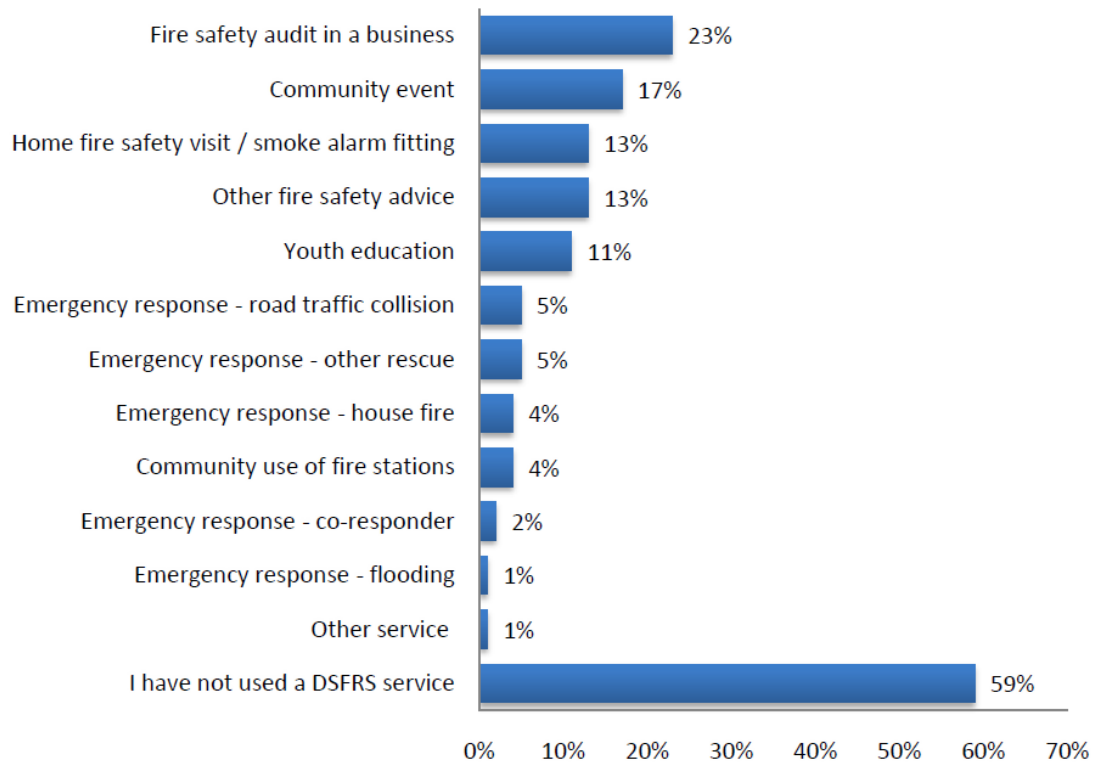


3.9 The single respondent who was dissatisfied attributed this to the services' budget being too big.

4 SERVICE USE

4.1 To contextualise the findings reported above, all respondents were asked if they have used any of ten specific services provided across Devon and Somerset. Overall, six in ten (59%) said that they had not used any of the DSFRS services they were asked about. Therefore for the majority, the views presented above will be driven by wider perceptions of the service, rather than personal experience. Among all respondents 23% have experienced a fire safety audit within a business, 17% have attended a community event where the Service was present and 13% have had a home fire safety visit/alarm fitting or have received other fire safety advice. The full extent of exposure to the Devon and Somerset Fire and Rescue Service among respondents is shown in Figure 4 below.

Figure 4: Have you used any of the following Devon and Somerset Fire and Rescue Services? (All responses)



Unweighted Sample Base: 103

5. PROFILE OF RESPONDENTS

5.1 The following tables outline the unweighted demographic profile of the sample.

Table 1 – Local authority district

Age	%	Base
Torbay	13%	13
Plymouth	13%	13
Devon	44%	45
Somerset	31%	32

Table 2 – Respondents' Age

Age	%	Base
16 – 24 years	2%	2
25 – 34 years	10%	10
35 – 50 years	42%	43
51– 64 years	37%	38
65+	10%	10

Table 3 – Respondents' Gender

Gender	%	Base
Male	69%	71
Female	31%	32

Table 4 – Respondents' Ethnic Origin

Ethnic Origin	%	Base
White – English/Welsh/Scottish/Northern Irish/ British	95%	98
White Other	3%	2
Refused	2%	2

6. CONCLUSION

- 6.1 The results of the telephone survey indicate that, despite the higher cost presented for the value for money question, the level of agreement remained high and was above the average level (76%) set over the last four years. Although the current cost of the service to rate payers is seen as being value for money, there is a high level of support for the government's proposal to freeze the Council Tax charge for 2011/12. A small number of respondents expressed some concern about the negative impact on service delivery and fire fighter safety if there was no increase in the Council Tax.

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 2011-2012 BUDGET

The net revenue budget requirement for 2011-2012 has been assessed as £75.141m. 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 2012, in which time external factors, which are outside of the control of the authority, may arise which may cause additional expenditure to be incurred. For example, most retained pay costs 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 2011-2012 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO VOLATILE CHANGES

<u>Budget Head</u>	BUDGET PROVISION 2011-12 £000	RISK AND IMPACT	MITIGATION
Employee Salary costs	55,144	Of the total Service budget of £76m an amount of £55m relates to direct salary costs, both uniform and non-uniformed staff, including overheads for pension and national insurance contributions. No provision has been made any pay award in 2011. As the level of any pay award is subject to national negotiations there is a risk that some level of pay award is agreed.	In establishing a General Reserve for 2011/2012, allowance has been made for a potential overspend on this budget. The amount is based upon a pay award of up to 1.0% being agreed.

<u>Budget Head</u>	BUDGET PROVISION 2011-12 £000	RISK AND IMPACT	MITIGATION
Retained Pay Costs	12,208	<p>Most 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 e.g. spate weather conditions. 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 having the same conditions of service in relation to pension and sickness benefits as wholtime firefighters. Given the significant number of retained firefighters employed by the Service, and the fact that this ruling will be backdated to the year 2000, this ruling will have a significant impact on the Service budget.</p>	<p>In establishing a General Reserve for 2011/2012, 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 £0.949m 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 early in 2011, the full extent of the impact to the Service budget cannot be quantified.</p>

<u>Budget Head</u>	BUDGET PROVISION 2011-12 £000	RISK AND IMPACT	MITIGATION
Service Control Costs	1,947	<p>In light of the government announcement in December 2010 to cancel the national FireControl project, the Service will need to identify any outstanding issues which may require additional funding in 2011-12. For example, on-going maintenance costs of installed equipment previously funded from New Burdens grants.</p> <p>In addition, no financial provision has been made to support a project to review alternative fire control arrangements, or any refresh of existing control systems.</p>	A balance of £0.108m is available in an earmarked reserve, previously established to provide some financial contingency relating to transitional costs associated with the implementation of the FireControl, and the Firelink project.
Fire-fighter' s Pensions Scheme	1,999	Whilst net pension costs funded by the government through a top-up grant 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 2011-2012 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.
Insurance Costs	682	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 2011-2012, 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.

<u>Budget Head</u>	BUDGET PROVISION 2011-12 £000	RISK AND IMPACT	MITIGATION
Fuel Costs	838	Whilst the budget has made some allowance for further increases in fuel costs during 2011-12, it is highly possible that increases could be in excess of the budget provided.	In establishing a General Reserve for 2011-2012, allowance has been made for a potential overspend on this budget.
Income	(1,451)	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 2011-2012 has made some allowance for a shortfall against achieving income targets.
Capital Programme	6,502	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 four year period covering the years 2011-12 to 2014-15. 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 Consumer Prices Index.

Given the CSR 2010 announcement, which included average reductions in grant of 25% for fire and rescue authorities by 2014-15, the strategy for setting a budget for 2011-12 has been very mindful of the likely funding scenarios over the next four years rather than just 2011-12. Therefore the budget for 2011-12 has included some new invest-to-save funding e.g. revenue contributions to capital funding (to alleviate external borrowing and future debt charges liabilities) and support to the Change and Improvement Programmes (to identify and progress those projects that will generate the efficiencies and improvements by 2014-15).

THE ADEQUACY OF THE LEVEL OF RESERVES

It should be noted that 2011-12 is only the eighth 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 £4.453m, which represents 5.9% of the revenue budget. Should there be an underspend against this year's budget, current forecast is for an underspend of £1.363m, then, subject to other Service priorities required to be funded from this figure, then the level of General Reserve could increase to over 7% of revenue budget at year-end.

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 four years to fund emergency spending. This has enabled the balance, through budget underspends, to be increased to a level in excess of 5%. The importance of holding adequate levels of general reserves was highlighted in recent years following the deterioration of the banking system and the loss of local authority investments from the Icelandic banks. Whilst this Authority was 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 4th quartile (lower) when compared to all fire and rescue authorities. The average reserve balance for all FRAs is 13.5% of revenue budget, with the 1st quartile being 15.0% and 4th quartile 8.0%. Consequently, even at just over 7% the Authority's reserve level would still be placed in the 4th quartile and fourth lowest of all combined fire and rescue authorities in the country, positioning the Authority at 29 out of 33.

Given the uncertainty over the scale of budget reductions that the Authority will be required to find in 2013-14 and 2014-15, it is my view that the Authority should seek to protect reserve balances, as much as possible, to provide added financial stability through the CSR 2010 period.

CONCLUSION

It is considered that the budget proposed for 2011-12 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 is judged to be adequate to meet all reasonable forecasts of future liabilities.

KEVIN WOODWARD
Treasurer