

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



REPORT REFERENCE NO.	DSFRA/12/4
MEETING	DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY (BUDGET MEETING)
DATE OF MEETING	17 FEBRUARY 2012
SUBJECT OF REPORT	2012-2013 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 3 February 2012, be approved:</i></p> <p>(i) <i>that the level of council tax in 2012-13 for a Band D property be set at £73.92, as outlined as Option D in paragraph 5 of this report, representing a 3.00% increase over 2011-12;</i></p> <p>(ii) <i>that a Net Revenue Budget Requirement of £78,676,700 for 2012-13 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 £45,634,541, 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 £45,634,541, 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 C 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 meeting of Resources Committee held on the 3 February 2012 considered four options for a level of council tax for 2012-13:</p> <p>OPTION A – Freeze council tax at 2011-12 level (£71.77 for a Band D Property).</p> <p>OPTION B – Increase council tax by 2.0% above 2011-12 (increase of £1.43 to £73.20).</p> <p>OPTION C – Increase council tax by 2.5% above 2011-12 (increase of £1.79 to £73.56).</p> <p>OPTION D – Increase council tax by 3.0% above 2011-12 (increase of £2.15 to £73.92).</p> <p>The Fire and Rescue Authority is asked to consider the contents of this report, and ratify the recommendation made from the meeting of the Resources Committee for Option D (increase in council tax of 3.00%).</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	<p>A. Proposed Net Revenue Budget Requirement 2012-13.</p> <p>B. Report on Precept Consultation for 2012-13 Revenue Budget (page numbered and included separately with agenda for meeting).</p> <p>C. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances.</p>
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 fifteen council tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2012-2013. 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 Localism Act 2011 includes new provisions which require an authority to hold a council tax referendum where an authority's council tax increase in 2012-2013 exceeds the council tax "excessiveness principles" applied for that year. These new rules replace the previous capping regime where the government would impose a cap on council tax increases.
- 1.3 The Secretary of State has proposed the council tax principles he is minded to set for 2012-2013. These are that fire and rescue authorities will be required to seek the approval of the local electorate in a referendum if, compared with 2011-2012, they set a council tax increase that exceeds 4.0%:
- 1.5 Whilst the Authority could consider an increase of 4.0% and still be within the "excessive principles" to be applied, this report considers four options, A to D below, of which the maximum increase is 3.0%. The 4.0% option is not included given the results of the precept consultation survey (paragraph 8 of this report) which only indicates limited support for a 4.0% increase.

OPTION A – Freeze council tax at 2011-12 level (£71.77 for a Band D Property).

OPTION B – Increase council tax by 2.0% above 2011-12 (£73.20).

OPTION C – Increase council tax by 2.5% above 2011-12 (£73.56).

OPTION D – Increase council tax by 3.0% above 2011-12 (£73.92).

- 1.6 The meeting of Resources Committee held on the 3 February 2012 considered the implications of each of these options, and have recommended that Option D (increase in council tax of 3.00%) be recommended to the Fire and Rescue Authority for approval.

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. The Spending Review in October 2010 provided specific details of how public spending would be reduced over the four year period 2011-12 to 2014-15, 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 requires fire and rescue authorities to put plans in place to deliver 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.

3. **LOCAL GOVERNMENT FINANCE SETTLEMENT 2012-13**

3.1 The Local Government Finance Settlement announcement in December 2010 provided local authorities with individual grant allocations for the two financial years 2011-12 and 2012-13. The further provisional Local Government Finance Settlement made in December 2011 only served to confirm that the original figures announced twelve months previously for 2012-13 will stand.

3.2 The settlement announced average local government grant reductions for England in 2011-12 of -9.9% when compared to 2010-11, and reductions of -7.3% in 2012-13 when compared to 2011-12. For fire and rescue authorities, however, the reductions are not so severe, -5.7% in 2011-12 and a further -0.7% in 2012-13, which is consistent with the government commitment that the larger reductions in Fire funding will be back-loaded to 2013-14 and 2014-15.

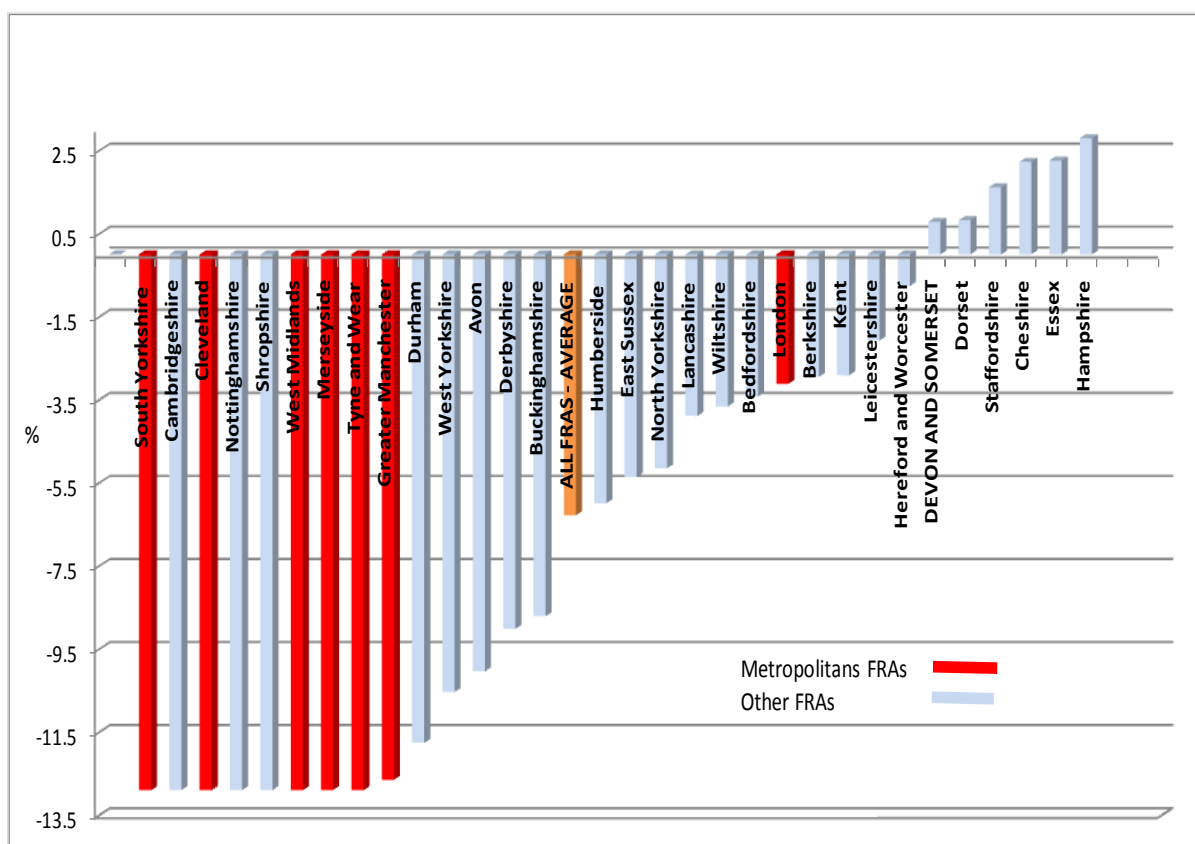
Impact of Provisional Grant Settlement to Devon and Somerset FRA

3.3 The actual changes in grant figures for Devon and Somerset FRA were a reduction in 2011-12 of -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.

TABLE 1 – FINAL GRANT SETTLEMENT FIGURES	£m	%
Formula Grant 2011-12	30.894	
Reduction over 2010-11 Grant	(0.349)	-(1.1)%
Formula Grant 2012-13	31.485	
Increase over 2011-12 Grant	0.591	+1.9%

3.4 These allocations were certainly more favourable than had originally 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. Chart 1 overleaf provides an analysis of changes in grant for all FRA's over the two years 2010-11 to 2012-13.

CHART 1 – ANALYSIS OF CHANGES IN FRA FORMULA GRANT 2012-13 OVER 2010-11



3.5 Chart 1 above illustrates that, whilst the average reduction in grant for Fire is -6.3%, the range of reductions are from -12.9% (eight FRAs) to +2.80% (Hampshire FRA). As the government has set a floor of -12.9% no FRA has suffered a reduction of more than -12.9%.

Local Government Resource Review

3.6 As is stated earlier the Local Government Finance Settlement announcement in December 2010 covered the first two years of the four year CSR 2010 period. The reason that grant figures were only released for two years rather than the whole four-year period is that the government had announced its intention to fundamentally change the way local authorities are to be funded from 2013-14.

3.7 In the summer of 2011 the government issued a consultation document “*Local Government Resource Review – Proposals for Business Rate Retention*” which outlined its proposed changes which would allow councils to retain locally raised business rates. The main principle behind the new system is to free councils from dependence on central Government grants and to provide a strong incentive for them to stimulate growth in the local economy.

3.8 Given that fire and rescue authorities are not billing authorities, and have very limited leverage in terms of stimulating the local economy, it is difficult to assess with any certainty the impact of the new system to the future funding of Devon and Somerset FRA from April 2013. The government has made it clear however that the new system will be working within the CSR 2010 control totals already set for 2013-14 and 2014-15, which means that the back-loading of grant reductions for fire and rescue authorities is still to be applied to 2013-14 and 2014-15. Based upon grant reductions already applied to Fire in 2011-12 and 2012-13 it is estimated that there are still -13.5% cash reductions in grant to come in 2013-14 and 2014-15. It is not anticipated that actual funding figures for 2013-14 and 2014-15 at individual authority level will be known until late 2012.

4. REQUIREMENT TO HOLD A LOCAL REFERENDUM FOR EXCESSIVE COUNCIL TAX INCREASES

4.1 The government had already published a consultation document during 2010 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. It proposed that 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.

4.2 The Localism Act received Royal Assent in December 2011 and included the implementation of the new system from 2012-13. Under these new arrangements any authority that wishes to increase council tax beyond a government set limit (principles), will be required to hold a referendum by May of the financial year in question, to seek the approval of the local electorate to such an increase. If the referendum results in a 'yes' vote then the increase will stand, however, if a 'no' vote is the outcome then the authority will need to revert to a council tax increase limited to the government set limit. This means that, in such circumstances at the budget meeting, two budgets will need to be considered, the budget at the excessive council tax level, and a second "shadow budget" based on the government set limit for council tax increases.

4.3 The government principles to be applied for 2012-13 have now been announced (subject to parliamentary approval), which are that a local authority will be required to seek the approval of their local electorate in a referendum if, compared with 2011-12, they set a council tax increase that exceeds:

- 3.5% for most principal authorities;
- 3.75% for the City of London;
- 4% for the Greater London Authority, police authorities, and single purpose fire and rescue authorities.

4.4 This means that a fire and rescue authority can increase its council tax by up to 4.0% without the need to hold a local referendum.

5. COUNCIL TAX AND BUDGET REQUIREMENT 2012-2013

Council Tax

5.1 Members will be aware that the government has laid out its expectations that for 2012-2013 local authorities freeze council tax for a second year. To encourage authorities to do this it has announced that it will pay a further Council Tax Freeze Grant to those authorities that set a zero per cent increase in council tax for 2012-13. For fire and rescue authorities (and police) this grant will be equivalent to an increase in council tax of 3.0%, equivalent to £1.328m for this authority.

- 5.2 However, it is important to recognise that this grant is different from the Reward Grant paid in relation to 2011-12 in that it will be paid for 2012-13 only, whereas the 2011-12 grant will be paid for each year of the CSR 2010 period. This makes this new grant less attractive and it is the Treasurers view that unlike 2011-12 when all local authorities decided to take the grant on offer and freeze council tax, this time there will be a number of authorities that will refuse the grant and opt to increase council tax. 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.
- 5.3 For 2012-13 therefore, the Authority has to decide first as to whether it wishes to freeze council tax for a second year or not, and if it chooses to increase council tax then secondly, to decide what level of increase is required. Each 1% increase in council tax represents a £0.71p increase for a Band D property, and is equivalent to a £0.442m variation on the revenue budget. This report considers four options:
- OPTION A** – Freeze council tax at 2011-12 level (£71.77 for a Band D Property).
- OPTION B** – Increase council tax by 2.0% above 2011-12 (£73.20).
- OPTION C** – Increase council tax by 2.5% above 2011-12 (£73.56).
- OPTION D** – Increase council tax by 3.0% above 2011-12 (£73.92).
- 5.4 Included in this report at paragraph 8 is a summary of the results of the 2012-2013 precept consultation exercise. Given that there is limited support from business and the public for a 4% increase, this report has not considered increases beyond 3.0%.
- 5.5 Each of these options will increase the amount of revenue funding available in 2012-2013. Table 2 overleaf provides a summary of the increase in funding over 2011-2012 for each of the four options.

TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – INCREASE IN SPENDING POWER OVER 2011-12

	OPTION A	OPTION B	OPTION C	OPTION D
	Council Tax Freeze at £71.77	Council Tax Increase of 2.0% to £73.20	Council Tax Increase of 2.5% to £73.56	Council Tax Increase of 3.0% to £73.92
	£m	£m	£m	£m
TOTAL FUNDING 2011-2012	76.240	76.240	76.240	76.240
Increase in Government Grant	0.591	0.591	0.591	0.591
<u>Increase in Council Tax Precept</u>				
- resulting from an increase in Council Tax Base (Number of Valued Properties)	0.364	0.364	0.364	0.364
- resulting from an increase in Band D Council Tax	-	0.883	1.105	1.328
Increase in Share of Billing Authorities Council Tax Collection Funds	0.154	0.154	0.154	0.154
2012-13 Council Tax Reward Grant	1.328	-	-	-
TOTAL FUNDING AVAILABLE 2012-2013	78.677	78.232	78.454	78.677
INCREASE IN SPENDING POWER	2.437	1.992	2.214	2.437

5.6 The impact of each of the options over 2011-12 is summarised below:

- **Option A** offers the equal largest increase in spending power in 2012-13 +2.437m, but the reward grant of £1.328m will be removed in 2013-2014 as the grant is payable for one year only.
- **Option B** offers a smaller increase in spending power than Option A in 2012-13 +1.992m, however the £0.883m generated from a 2.00% increase in council tax would be built into base and will therefore be available for the Authority to spend in all future annual budgets.
- **Option C** offers a smaller increase in spending power than Option A in 2012-13 +2.214m, however the £1.105m generated from a 2.50% increase in council tax this amount would be built into base and will therefore be available for the Authority to spend in all future annual budgets.
- **Option D** offers the equal largest increase in spending power in 2012-13 +2.437m, and the additional £1.328m generated from a 3.00% increase in council tax would be built into base and will therefore be available for the Authority to spend in all future annual budgets.

Net Budget Requirement

5.7

Table 3 below provides a summary of the proposed revenue budget for 2012-13 on the basis of setting the budget at £78.677m i.e. Options A and D. 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 analysis of the proposed budget by subjective budget headings.

<u>TABLE 3 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2012-2013</u>	£m	%
Approved Net Revenue Budget Requirement 2011/2012 (including 2011-12 Council Tax Reward grant of £1.099m)	76.240	
PLUS Provision for pay and price increases (items 1 to 4 included in Appendix A to this report)	1.303	
PLUS Inescapable Commitments (items 5 to 9 included in Appendix A to this report)	(0.178)	
MINUS One-off investments in 2011-12 (items 10 to 13 included in Appendix A to this report)	(1.103)	
PLUS Invest-to-Save/Essential Spending Pressures (items 14 to 18 included in Appendix A to this report)	4.040	
CORE SPENDING REQUIREMENT 2012-2013	80.302	
MINUS Budget Savings/Income Generation (items 19 to 23 included in Appendix A to this report)	(1.625)	
NET REVENUE BUDGET REQUIREMENT 2012-2013	78.677	
INCREASE IN BUDGET OVER 2011-2012 (£m)		2.437
INCREASE IN BUDGET OVER 2011/2012 (%)		3.19%

Invest-to-Save/Essential Spending Pressures

- 5.8 In constructing the budget requirement for 2012-13 an amount of £4.040m 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, or be risk critical in terms of enhancing firefighter safety and operational resilience.
- 5.9 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 £0.936m has been identified as the minimum requirement in 2012-13 to support the key improvement projects to be progressed through the two Change and Improvement Programmes in 2012-13. This sum will be allocated during the financial year, by the officer led Portfolio Management Board, subject to the approval of robust business cases which demonstrate the delivery of efficiencies or improvements to the Service.
 - 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 2012-13 to 2014-15. 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. That programme includes some significant capital investment needs to be delivered in 2013-14 such replacement of breathing apparatus equipment, and the introduction of light rescue pumps (LRPs). To deliver that level of programme and maintain the debt ratio within the 5% limit it is proposed that in setting the 2012-13 revenue budget an amount is of £1.850m is utilised to directly fund capital spending.
 - III. **Commercial Services Activities (invest-to-save)** – the establishment of the Commercial Services Arm has already increased income generation from the delivery of external training courses from £0.5m in 2010-2011 to a projected £1.1m in 2011-2012. For 2012-13 the income target has been increased by £0.395m. It is proposed that this additional income is re-invested back into commercial activities to cover costs of the Commercial Services Team, increased number of trainers, and costs of Members allowances associated with the Commercial Services Committee.
 - IV. **Alternative Fire Control Building** – The issues surrounding the closure of the Regional Fire Control Project by the Department of Communities and Local Government (CLG) and the alternative arrangements for the Networked Fire Control Project, in collaboration with Dorset, Wiltshire and Hampshire Fire and Rescue Services has been reported to the Committee previously. The procurement for a new operating system and associated systems are likely to be complete by the end of the next financial year (2012/13) and consequently, there is a need to locate this into a new facility. Whilst the business case for this project has yet to be agreed, the pressure on the capital programme makes a new building on site unlikely. At this time, it is proposed to allocate £0.490m from the 2012-13 revenue budget to fund refurbishment to existing buildings to facilitate the development of fire control on the Service Headquarters (SHQ) site.

- V. **Essential Spending Pressures** – an amount of £0.369m has been included for investment in a small number of essential spending bids agreed by the Senior Management Board from a large number of bids received from budget managers. The main areas of support relate to the enhancement of firefighter safety, enhanced training budget for Retained Duty System, the provision of Automatic External Defibrillators (AEDs) on front line appliances, Service Level Agreement with Plymouth and Devon Equality Council, and increased legal support.

- 5.10 Should the Authority be minded to approve either options B or C, then the Net Budget Requirement for 2012-13 would need to be reduced accordingly, and the Senior Management Board would need to review all of the projects included within these investment initiatives with a view to deciding which of these would be removed from the base budget.

6. MEDIUM TERM FINANCIAL PLAN

- 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, but we will not know the scale of grant reductions at FRA level for 2013-14 and 2014-15 until late 2012. The uncertainty of the funding position is exacerbated by government plans to implement a significant change to the funding of local authorities from 2013-14, involving the introduction of the local retention of business rates system, and the abolition of Formula Grant.
- 6.2 This uncertain future over our funding for the next few years makes it even more important that financial planning spans more than just one year, so as decisions on council tax can be made on the basis of its impact over the medium term. The Medium Term Financial Plan has therefore been updated to span a four year period from 2012-13 to 2015-16.
- 6.3 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 our forecasts which will inevitably be subject to change. However, the prudent forecasts of future budgets 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.

7. PLANS TO ACHIEVE BUDGET REDUCTIONS 2012-13 TO 2015-16

- 7.1 Whilst it is not possible to predict the scale of budget reductions required by 2014-2015 with absolute certainty, the MTFP financial model can be used to assess 'best case' and 'worst case' scenarios. This modelling assessed last year that on-going savings of between -4.5m (best case) and -£9.2m (worst case) would be required by 2014-2015, over the 2010-2011 budget.
- 7.2 This budget report proposes total budget reductions of -£1.6m to be delivered in 2012-13 (Appendix A items 19 to 23), which when added to the £1m of savings identified in setting the 2011-12 budget, means that the Authority has already identified -£2.6m of on-going savings which will contribute to the budget reductions programme required by 2014-2015.

7.3 Using our original forecast of savings required this means that the savings delivered so far has reduced our savings requirement for 2014-2015 to -£1.9m (best case) to -£6.6m (worst case). This position would be exacerbated should the decision be made to freeze council tax in 2012-13 as the loss of the freeze grant would also need to be made up by further reductions in spending, or increases in council tax from 2013-2014. Table 4 below summarises how the -£2.6m of savings delivered so far are made up.

<u>TABLE 4 – SUMMARY OF ON-GOING SAVINGS DELIVERED 2011-12 AND 2012-13</u>	£m
Vacancy Management	(0.575)
Adoption of Zero Base Budgeting and efficiency savings identified from Budget Holders	(0.647)
Additional Revenue from Commercial Activities	(0.495)
Amalgamation of control rooms	(0.503)
Senior Management Board restructure	(0.154)
Changes to mobilisation arrangements to co-responder calls	(0.075)
Change in policy to Automatic Fire Alarm (AFA) calls	(0.109)
Change in payroll provider	(0.059)
Dissolution of Regional Management Board	(0.025)
TOTAL SAVINGS 2011-12 AND 2012-13	(2.642)

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

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.
- Using slightly smaller fire engines for relevant areas.
- Commencing discussions with staff as to how we can change the existing shift system.
- Savings from reductions in the senior management team in 2010.
- Improving business processes.

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).

Generating income: -

Selling training and other functions.

- 7.5 Looking beyond 2014-15, the Chancellors' Autumn Statement in November 2011 indicated that the austerity measures currently in place will need to continue for at least two years beyond 2014-15. Whilst we cannot be certain of the impact of this Statement on local government funding, it would indicate that further reductions in funding will be made.
- 7.6 The progression of projects within the Change and Improvement Programmes will be key to the delivery of further savings in the next few years. Officers are confident that the significant work underway within this programme will secure the necessary budget reductions by 2014-15.

8. PRECEPT CONSULTATION 2012-2013

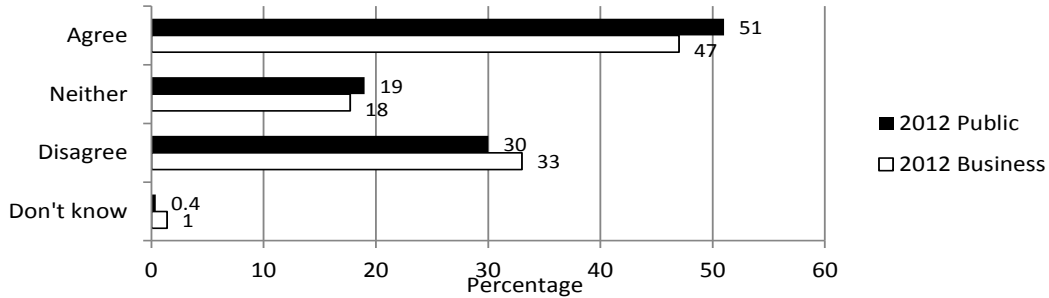
- 8.1 Section 65 of the Local Government Finance Act (1992) requires precepting authorities to consult non-domestic ratepayers on its proposals for expenditure.
- 8.2 For 2012 the consultation was extended to include members of the public; it was deemed inappropriate not to include the public's views on the option of increasing Council Tax at a time of economic difficulty.
- 8.3 A telephone survey methodology was used as in previous years due to the short timescale to complete the research. The key specifications for the survey were:
- To ask 4 key question plus demographic information;
 - to collect answers to both closed and open questions; and
 - to provide a representative sample of 400 business and 400 members of the public by constituent authority area (Devon County Council; Plymouth City Council; Somerset County Council; and Torbay Council).
- 8.4 The survey commenced the week beginning Monday 8 January 2012 and was undertaken by BMG Research. Appendix B provides the full report of the results produced by BMG Research.

Results

- 8.5 **Question 1: 'How strongly do you agree or disagree that it is reasonable for the Authority to consider increasing its council tax charge for 2012/13 in order to safeguard the present levels of service?'**

The results to Question 1 show that the results are very similar between the public and business samples demonstrating that the two groups hold similar views. The top line results in Graph 1 reveal that more business and public respondents agree than disagree that it is reasonable to consider increasing its Council Tax charge for 2012/13.

Graph 1: Business and public results as to whether they agree it is reasonable for the Authority to consider increasing its council tax charge for 2012/13

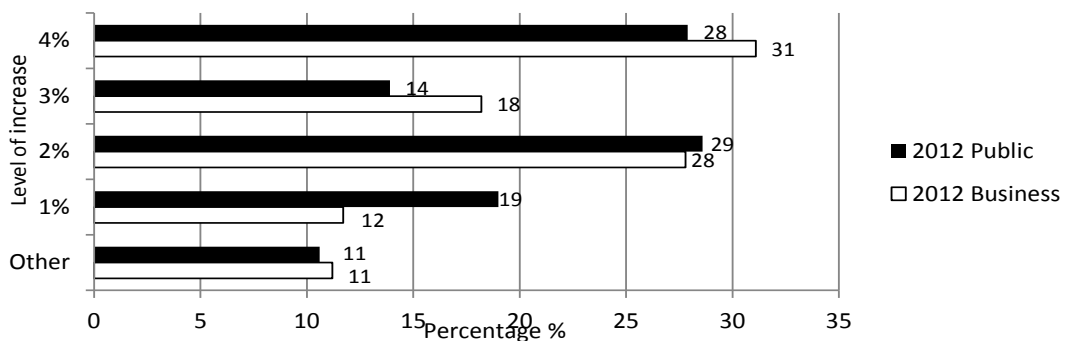


In the 2011 survey, 77% of business respondents agreed that the Authority should not increase its Council Tax charge for 2011/12. The 2012 survey results, therefore, suggest that opinion has changed over the year towards a more positive view of increasing the Council Tax precept.

8.6 Question 1.b 'If you answered agree or strongly agree what level of increase based on the current figure of £71.77 would you consider reasonable?'

The results to Question 1b, shown in Graph 2, demonstrate that the support for increasing the Council Tax does not, as may be assumed, decline as the percentage increases. Instead the greatest level of support is for either 2% or 4% and this is consistent for both public and business responses.

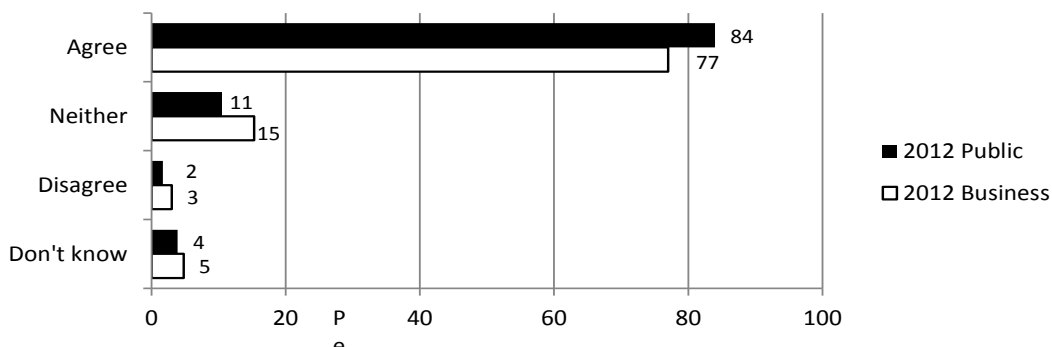
Graph 2: The percentage level increase considered reasonable by respondents who agreed to Question 1



8.7 **Question 2. Devon and Somerset Fire and Rescue Service’s total annual budget (e.g. Council Tax, Government Grant, Non Domestic Rates) equates to £122.72 per Band ‘D’ household across Devon and Somerset. How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money?**

The cost quoted for £122.72 was calculated 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 provides a more transparent approach of providing rate payers with a more accurate assessment of the costs of DSFRS. The results in Graph 3 show that both public and business respondents agree that the Service provides value for money and that there is a higher level of agreement from members of the public.

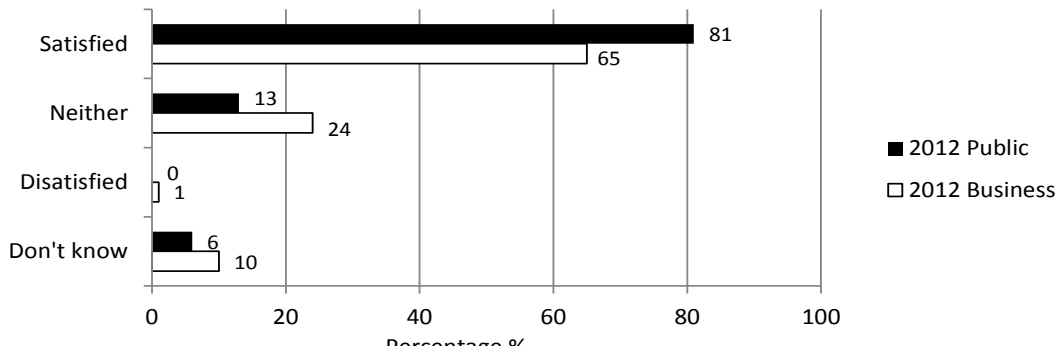
Graph 3: How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money?



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

The results in Graph 4 show that there is high level of satisfaction with the service provided amongst members of public. Satisfaction levels are lower amongst businesses but this is not necessarily because they are dissatisfied; more business respondents reported ‘Neither agree nor disagree’ or ‘Don’t know’ than members of the public.

Graph 4: How satisfied are you with the service provided by DSFRS



8.9 **Conclusion**

In both cases, more members of the public and the business community agree than disagree that it is reasonable for the Authority to consider increasing its Council Tax precept for 2012/13. For those who agreed the Authority should consider increasing the level of precept the most support was for a 2% or 4% increase. Results from members of the public and business community show that respondents agree the Service provides value for money and are also satisfied with the service provided.

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

9.1 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.

10. **SUMMARY**

10.1 The Authority is required to set its level of revenue budget and council tax for 2012-2013 by 1 March so that it can meet its statutory obligation to advise each of the fifteen billing authorities in Devon and Somerset of the required level of precept for 2012-2013. 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.

10.2 The meeting of Resources Committee held on the 3 February 2012 have already considered the implications of each of these options, and have recommended that Option D (increase in council tax of 3.00%) be recommended to the Fire and Rescue Authority for approval.

KEVIN WOODWARD
Treasurer

LEE HOWELL
Chief Fire Officer

APPENDIX A TO REPORT DSFRA/12/4

DRAFT REVENUE BUDGET REQUIREMENT 2012-2013

		£m	£m	%
	Revenue Budget 2011-2012 (approved Net Budget £75.141m PLUS 2011-2012 Council Tax Reward Grant £1.099m)		76.240	
	Provision for Pay and Prices			
1.	Uniformed Pay (assumed 1.0% from July 2012))	0.340		
2.	Non-Uniformed Pay (assumed 1.0% from April 2012)	0.092		
3.	Provision for prices increases (assumed CPI of 5.2%) plus additional allowance for fuel, utilities and non-domestic rates)	0.765		
4.	Provision for inflationary increase in pension costs.	0.106		
			1.303	
	Inescapable Commitments			
5	Pay increments and other pay changes	0.113		
6	Reduction in debt charges (including leasing costs)	(0.409)		
7	Increase in Occupational Health Costs	0.031		
8	Increase in Rates Costs from removal of rates relief	0.052		
9	Other changes (net)	0.035		
			(0.178)	
	One-off Provisions included in 2011-12 Budget			
10	Replacement of obsolete Hand Held Radios	(0.200)		
11	Change and Improvement Programmes (invest-to-save)	(0.740)		
12	Document Records Management System	(0.075)		
13	Replacement Training System	(0.088)		
			(1.103)	
	Invest-to-Save/Essential Spending Pressures			
14	Change and Improvement Programme	0.936		
15	Revenue Contribution to Capital Spending	1.850		
16	Commercial Services Activities	0.395		
17	Alternative Fire Control Room	0.490		
18	Essential Spending Pressures	0.369		
			4.040	
	Efficiency Savings/Income Generation			
19	Business Support Programme - Zero Based Budgeting - Change of Payroll Provider	(0.305) (0.059)		
20	Service Delivery Programme - Amalgamation of Control Rooms - Change in mobilisation arrangements to co-responder calls - Change in Policy to Automatic Fire Alarm (AFA) calls	(0.503) (0.025) (0.084)		
21	Additional income generation from Commercial Activities	(0.395)		
22	Vacancy Management	(0.150)		
23	Senior Management Board restructure	(0.104)		
			(1.625)	
	TOTAL CHANGES (LINES 1 TO 23)		2.436	
	DRAFT REVENUE BUDGET REQUIREMENT 2012-2013		78.677	

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 2012-13 BUDGET

The net revenue budget requirement for 2012-13 has been assessed as £78.677m. 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 2013, in which time external factors, which are outside of the control of the authority, may arise which will cause additional expenditure to be incurred. For example, the majority of retained pay costs are dependent on the number of call outs during the year, which can be subject to volatility dependent on spate weather conditions. 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 overleaf, along with details of the action taken to mitigate each of these identified risks.

TABLE 1 – BUDGET SETTING 2012-13 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO VOLATILE CHANGES

Budget Head	Budget Provision 2012-13 £m	RISK AND IMPACT	MITIGATION
Retained Pay Costs	12.3	A significant proportion of costs associated with retained pay is 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.	In establishing a General Reserve for 2012-13, 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.
		In addition, negotiations are still outstanding 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.	A 'Provision' of £1.505m has been set aside for the impact of the ruling from the Part Time Workers tribunal. However, until final negotiations are complete the full extent of the impact to the Service budget cannot be quantified.
Fire-fighter's Pensions	2.1	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 2012-13 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	0.8	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 2012-13 an 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.
Fuel Costs	0.8	Whilst the budget has made some allowance for further increases in fuel costs during 2012-13, it is highly possible that increases could be in excess of the budget provided.	In establishing a General Reserve for 2012-13 an allowance has been made for a potential overspend on this budget.
Income	-1.7	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £1.7m of external income. Whilst the work of the Commercial Services Arm will seek to at least hit this target, actual performance will be dependent on the full impact of the economic downturn.	Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Capital Programme	8.6	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 2012-13 to 2015-16. 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 2012-13 has been very mindful of the likely funding scenarios over the next four years rather than just one year. Therefore the budget for 2012-13 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 2012-13 is only the ninth 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 and in-year underspends.

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 £0.951m, then, subject to other Service priorities required to be funded from this figure, this level could be increased further to just under 7% at the year-end.

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 pleasing that the Authority has not experienced the need to call on reserve balances in the last five years to fund emergency spending, which 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 9.6% of revenue budget; consequently, even at just under 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 2012-13 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