

# DEVON & SOMERSET FIRE & RESCUE AUTHORITY



<b>REPORT REFERENCE NO.</b>	<b>DSFRA/13/4</b>
<b>MEETING</b>	<b>DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY (BUDGET MEETING)</b>
<b>DATE OF MEETING</b>	<b>18 FEBRUARY 2013</b>
<b>SUBJECT OF REPORT</b>	<b>2013-2014 REVENUE BUDGET AND COUNCIL TAX LEVELS</b>
<b>LEAD OFFICER</b>	<b>Treasurer and Chief Fire Officer</b>
<b>RECOMMENDATIONS</b>	<p><b>(a) <i>That the following recommendation of the meeting of the Resources Committee, held on 4 February 2013, be approved:</i></b></p> <p><b>(i) <i>that the level of council tax in 2013-14 for a Band D property be set at £75.39, as outlined as Option C in paragraph 5 of this report, representing a 1.99% increase over 2012-13;</i></b></p> <p><b>(b) <i>that, accordingly, a Net Revenue Budget Requirement of £76,783,500 be set for 2013-14;</i></b></p> <p><b>(c) <i>that as a consequence of recommendations (a) and (b) above:</i></b></p> <p><b>(i) <i>the tax base for payment purposes and the precept required from each billing authority for payment of the total precept of £41,458,324, as detailed on Page 2 of the budget booklet provided separately with this report, be approved;</i></b></p> <p><b>(ii) <i>the council tax for each property bands A to H associated with a total precept of £41,458,324, as detailed on Page 2 of the budget booklet provided separately with this report, be approved; and</i></b></p> <p><b>(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></b></p>

<b>EXECUTIVE SUMMARY</b>	<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 4 February 2013 considered three options for a level of council tax for 2013-14:</p> <p>    <b>OPTION A – Freeze council tax at 2012-13 level (£73.92 for a Band D Property).</b></p> <p>    <b>OPTION B – Increase council tax by 1.0% above 2012-13 (increase of £0.74 to £74.66).</b></p> <p>    <b>OPTION C – Increase council tax by 1.99% above 2012-13 (increase of £1.47 to £75.39).</b></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 C (increase in council tax of 1.99%).</p>
<b>RESOURCE IMPLICATIONS</b>	As indicated in the report.
<b>EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)</b>	Not applicable.
<b>APPENDICES</b>	<p>A. Proposed Net Revenue Budget Requirement 2013-14.</p> <p>B. Letter of Representation sent to the CLG regarding the Provisional Local Government Finance Settlement.</p> <p>C. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances.</p> <p>D. Report on Precept Consultation for 2013-14 Revenue Budget (page numbered and enclosed separately with the agenda for this meeting).</p>
<b>LIST OF BACKGROUND PAPERS</b>	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 2013-2014. The purpose of this report is to provide the necessary financial background for consideration to 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 2013-2014 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 2013-2014. These are that, except those fire and rescue authorities in the lower quartile of Band D council tax levels, who can set an increase up to a maximum of £5, all other fire and rescue authorities will be required to seek the approval of the local electorate in a referendum if, compared with 2012-2013, they set a council tax increase that exceeds 2.0%:
- 1.4 Given that the administration costs associated with holding a local referendum for one year are estimated to be in the region of £2.3m, this report does not include any proposals beyond 2.0%. Instead it considers three options, A to C below, of which the maximum proposed increase is 1.99%.

**OPTION A** – Freeze council tax at 2013-14 level (£73.92 for a Band D Property).

**OPTION B** – Increase council tax by 1.00% above 2013-14 (£74.66).

**OPTION C** – Increase council tax by 1.99% above 2013-14 (£75.39).

- 1.5 The meeting of Resources Committee held on the 4 February 2013 considered the implications of each of these options, and have recommended that Option C (increase in council tax of 1.99%) 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 Comprehensive Spending Review (CSR) in October 2010 provided specific details of how public spending would be reduced over the four year period 2012-13 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. The Fire Service has, however, 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 to give fire and rescue authorities time to implement changes without affecting the quality and breadth of service to communities.

### 3. **LOCAL GOVERNMENT FINANCE SETTLEMENT 2013-14 AND 2014-15**

3.1 The **provisional** Local Government Finance Settlement, announced in late December 2012, provided local authorities with individual formula funding allocations for the two financial years 2013-14 and 2014-15. It should be noted that as a result of significant changes to the local government finance system to be introduced in 2013-14 around the new Business Rates Retention Scheme, the new terminology attached to settlements is “Formula Funding”, which replaces the previous “Revenue Support Grant”.

3.2 For fire and rescue authorities (FRAs) the average reductions in formula funding are -8.9% in 2013-14 and a further -7.5% in 2014-15, consistent with the government commitment that the larger reductions in Fire funding are back-loaded to 2013-14 and 2014-15.

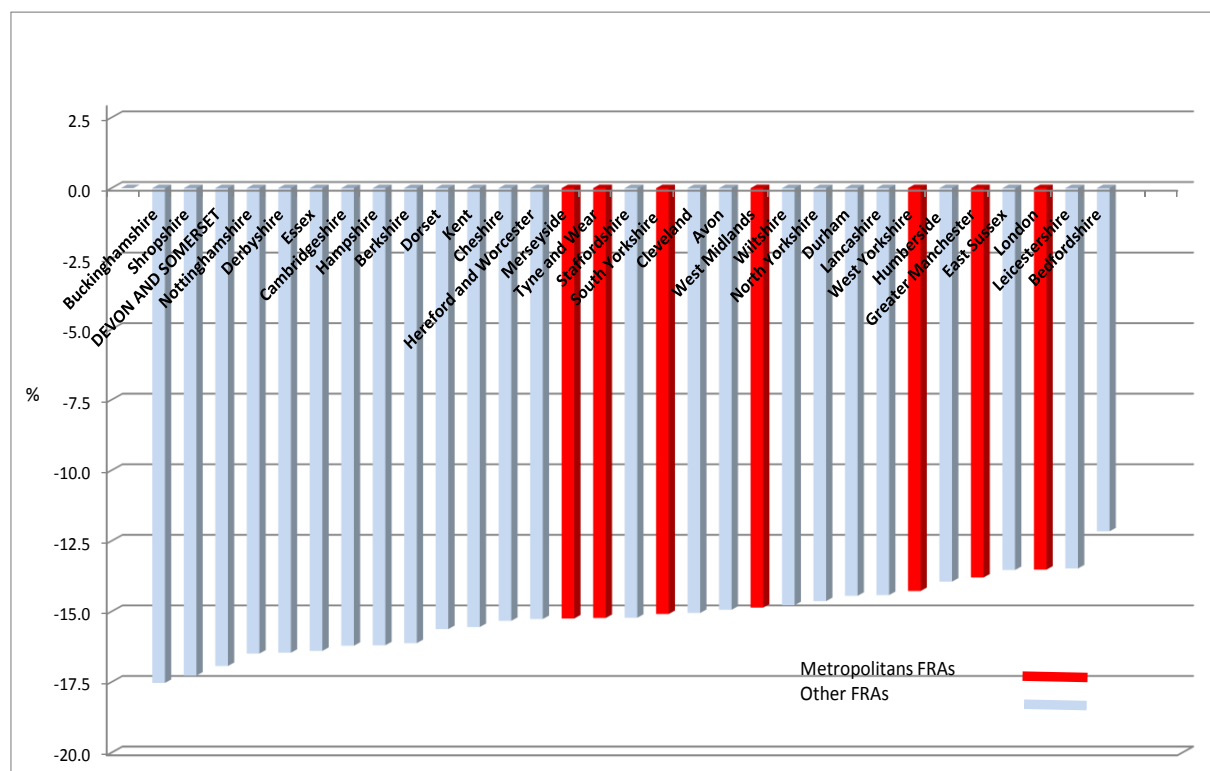
#### ***Impact of Final Grant Settlement to Devon and Somerset FRA***

3.3 The changes in formula funding for this Authority see a reduction in 2013-14 of -10.3% over 2012-13, and a further reduction of -7.3% in 2014-15 over 2013-14. Table 1 below provides a summary of the grant allocations.

<b>TABLE 1 – FORMULA FUNDING FIGURES FOR DSFRA</b>	<b>£m</b>	<b>%</b>
Formula funding 2013-14	29.211	
<b>Reduction over 2012-13</b>	<b>-3.373</b>	<b>-10.3%</b>
Formula Funding 2014-15	27.069	
<b>Reduction over 2013-14</b>	<b>-2.142</b>	<b>-7.3%</b>

3.4 Over the two years these allocations result in a reduction in funding of -£5.5m by 2014-15, equivalent to -17.6%. Chart 1 overleaf provides an analysis of changes in formula funding for all FRA’s over these two years.

**CHART 1 – ANALYSIS OF CHANGES IN FRA FORMULA FUNDING 2012-13 TO 2014-15**



3.5 Chart 1 above illustrates that this Authority has suffered the third worst settlement of all FRAs over the two years. This is very surprising given that in the previous settlement, in 2010, we had the third best settlement, and that the formula used to distribute fire formula funding for 2013-14 now includes a sparsity factor for the very first time. Given that Devon and Somerset provides fire and rescue cover over the largest geographical area in the country, this Authority should have been the biggest gainer from the inclusion of the sparsity factor. It would appear, however, that other changes in the formula have worked against us.

3.6 I have written a letter to the CLG on behalf of the Authority expressing our disappointment with the provisional settlement and seeking a review of the settlement in time for the final settlement announcements next month. A copy of this letter is attached as Appendix C.

3.7 At the time of writing this report I have not received a response from the CLG to answer the points I had raised in my letter, but disappointingly I have been advised by CLG officials that the final Local Government Finance Settlement to be announced in the House on the 13 February 2013 will not result in any significant change to our provisional figures announced in December in relation to 2013-14.

3.8 It is obviously disappointing that the CLG are not prepared to review the grant allocation for 2013-14 and we shall seek to have a meeting with the Minister as soon as possible to provide us with opportunity to present our case in time to effect the 2014-15 provisional settlement allocations.

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

- 4.1 Members will be aware of the new rules introduced last year which would require the Authority to hold a local referendum should it propose to increase council tax beyond a government set limit (principles). A referendum would need to be held on our behalf by all of the billing authorities in Devon and Somerset by May of the financial year in question. The administrative costs associated with holding such a referendum would have to be funded by the Authority.
- 4.2 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 Given that Band D council tax figures for fire and rescue authorities are relatively low, typically only 4% of the total council tax bill, we have argued with the Department of Communities and Local Government (CLG), that fire and rescue authorities should be exempt from this requirement as the costs associated with holding a referendum are disproportionate to the amount of additional precept gained from any increase. For this Authority the position is exacerbated by the fact that it has fifteen billing authorities that would be required to hold referendums on its behalf, resulting in estimated referendum costs in the region of £2.3m. It is felt that, rather than applying a percentage increase, a cash amount could be used for fire and rescue authorities.
- 4.4 The government has shown that it is sympathetic to this suggested approach as for 2013-14 it has exempted a small number of fire and rescue authorities, along with some district councils and police authorities, from a percentage limit and replaced it with a £5 cash increase. Only those authorities in the lower quartile of their authority type in terms of the size of Band D council tax have been exempted, however, which does not include Devon and Somerset FRA.
- 4.5 For 2013-14, the Secretary of State has announced that the referendum limit has been set at 2.0%. Given the high costs associated with holding a local referendum this report does not recommend any proposal to increase council tax beyond 2.0%, as I do not believe that incurring an administration cost of £2.3m would represent a good use of taxpayers' money.

#### **5. COUNCIL TAX AND BUDGET REQUIREMENT 2013-2014**

##### ***Council Tax***

- 5.1 Members will be aware that the government has again laid out its expectations that local authorities should freeze council tax in 2013-14 and to encourage this has again 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 2013-14. This grant will be equivalent to an increase in council tax of 1.0%, estimated to be £0.459mm (subject to confirmation of council tax base for 2013-14) for this authority.
- 5.2 It is important to recognise, however, that the government has announced that this grant will be payable in 2013-14 and 2014-15 only, which means that if accepted further on-going savings would need to be identified in 2015-16 to replace this loss of grant income.

5.3 It is of course 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. As Members will be aware, whilst the Authority agreed to freeze council tax in 2011-12 and take the reward grant of £1.099m (equivalent to 2.5% increase in CT), twelve months ago in setting the council tax for 2012-13 it decided to ignore the grant and increase council tax by 3.0%. The decision not to take the grant was largely taken because the grant of £1.3m that the Authority would have received would be payable in 2012-13 only, whilst the decision to increase council tax by 3.0% meant that the exact same sum of £1.3m is now in the Authority's base funding for all future years. If the Authority had decided to take the grant last year, then, in addition to the reduction in Formula Funding of £3.4m, as reported in paragraph 3.3 of this report, the budget for 2013-14 would have to manage a further £1.3m loss of government funding.

5.4 For 2013-14, therefore, the Authority has to decide whether it wishes to freeze council tax, and if not, decide on what level of increase is appropriate. Each 1% increase in council tax represents a £0.74p increase for a Band D property, and is equivalent to a £0.407m variation on the revenue budget. This report considers three options:

**OPTION A** – Freeze council tax at 2012-13 level (£73.92 for a Band D Property).

**OPTION B** – Increase council tax by 1.0% above 2012-13 (£74.66).

**OPTION C** – Increase council tax by 1.99% above 2012-13 (£75.39).

5.5 Each of the options will result in a reduction in the amount of revenue funding for 2013-14. Table 2 below provides a summary of the reduction associated with each option.

**TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – INCREASE IN SPENDING POWER OVER 2012-13**

	<b>OPTION A</b>	<b>OPTION B</b>	<b>OPTION C</b>
	<b>Council Tax Freeze at £73.92</b>	<b>Council Tax Increase of 1.0% to £74.66</b>	<b>Council Tax Increase of 1.99% to £75.39</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>TOTAL FUNDING 2012-13</b>	<b>78.677</b>	<b>78.677</b>	<b>78.677</b>
Reduction in Formula Funding (including adjustment for Business Rates Retention Share)	-3.245	-3.245	-3.245
Council Tax Support Grant (New)	5.624	5.624	5.624
<u>Changes in Council Tax Precept</u>			
- changes in Council Tax Base resulting from introduction of local Council Tax Benefit System and increase in number of properties	-4.985	-4.985	-4.985
- resulting from an increase in Band D Council Tax	-	0.407	0.808
Reduction in Share of Billing Authorities Council Tax Collection Funds	-0.095	-0.095	-0.095
2013-14 Council Tax Reward Grant	0.459	-	-
<b>TOTAL FUNDING AVAILABLE 2012-2013</b>	<b>76.435</b>	<b>76.383</b>	<b>76.784</b>
<b>REDUCTION IN SPENDING POWER</b>	<b>-2.242</b>	<b>-2.294</b>	<b>-1.893</b>

5.6 The impact of each of the options over 2012-13 is summarised below:

- **Option A** offers the second largest reduction in spending power in 2013-14 -£2.242m, and the reward grant of £0.459m will be removed in 2015-2016 as the grant is payable in 2013-14 and 2014-15 only.
- **Option B** offers the largest reduction in spending power in 2013-14 -£2.294m however the amount available from the 1% increase in council tax of £0.407m would be built into base and will therefore be available for the Authority to spend in all future annual budgets.
- **Option C** offers the smallest reduction in spending power in 2013-14 -£1.893m and the amount available from the 1.99% increase in council tax of £0.808m 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 a proposed revenue budget for 2013-14 on the basis of setting the budget at £76.784m i.e. Option C. A breakdown of the more detailed items included in this draft budget are included in Appendix A, and a budget booklet is enclosed separately with this report which provides an analysis of the proposed budget by subjective budget headings e.g. employee costs, property costs, transport costs etc.

<b><u>TABLE 3 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2013-2014</u></b>	<b>£m</b>	<b>%</b>
Approved Net Revenue Budget Requirement 2012/2013	78.677	
PLUS Provision for pay and price increases (items 1 to 4 included in Appendix A to this report)	0.869	+1.1%
MINUS One-off investments in 2012-13 (items 5 to 9 included in Appendix A to this report)	(4.102)	-5.2%
PLUS Inescapable Commitments (items 10 to 16 included in Appendix A to this report)	1.160	+1.5%
PLUS Invest-to-Save Items (items 17 to 20 included in Appendix A to this report)	1.753	+2.2%
<b>CORE SPENDING REQUIREMENT 2013-2014</b>	<b>78.357</b>	
MINUS Budget Savings (items 21 to 23 included in Appendix A to this report)	(1.573)	-2.0%
<b>NET REVENUE BUDGET REQUIREMENT 2013-2014</b>	<b>76.784</b>	
<b>REDUCTION IN BUDGET OVER 2012-2013 (£m)</b>	<b>(1.893)</b>	<b>-2.4%</b>



### ***Invest-to-Save Items***

5.8 The Authority has recognised the need to invest in introducing new capabilities that will allow us to provide better service at less cost. The potential for technology to transform the Service is immense and investment in this area is a cornerstone of the Service strategy to change the way it works allowing it to manage in the future with fewer people. An amount of £0.846m is included in the invest-to-save total allowing the Service to:

- replace or upgrade end of life systems such as Training Records and Workforce (HR);
- introduce new systems to replace paper based manual processes such as Accident Reporting;
- pilot the replacement of paper records with an Electronic Document Records Management System; and
- enhance our recently acquired middleware technology to improve the development and testing capabilities.

In addition, there is an amount of £0.397m for other business support initiatives such as procurement and process improvement. The sum total of the business support initiatives will deliver an estimated annual budget saving of £1.615m by 2016/17. Also included in the invest-to-save element is an amount of £0.408 to run the Light Rescue Pumps Project and the Fire-Control Project, together with other work that supports the development of the Corporate Plan proposals.

### ***Budget Savings***

5.9 As is indicated in Table 3, the Core Budget Requirement for 2013-14 (which includes provision for pay and inflation) inescapable commitments and new investment has been assessed as £78.357m. This is more than the amount of funding available under Option C i.e. £76.784m, and therefore budget savings of £1.573m are required in order that a balanced budget can be set. It is proposed that these savings are achieved from three areas:

- **Budget Management Savings (£1.082m)** – As was reported to the last meeting of Resources Committee held on the 4 February within the 2012-13 Financial Performance Report Quarter 3, all budget holders across the organisation had been tasked with identifying in-year budget savings within their area of budget responsibility. In addition, budget holders were also tasked with identifying on-going savings from 2013-14 to contribute towards the budget deficit. This exercise has identified an amount of £1.082m to be delivered in 2013-14 from a range of budget headings.
- **Business Support Changes (£0.150m)** – Changes to be delivered to business support functions during 2013-14 e.g. investment in new technology will result in the delivery of efficiency savings in 2013-14, estimated to be £0.150m.
- **Vacancy Management (£0.341m)** – A reduction in salary budgets of £0.341m to reflect savings to be achieved from the natural turnover of staff e.g. retirements during 2013-14. This would be in addition to the £0.150m already taken out in 2012-13 increasing the total vacancy management saving to be achieved in 2013-14 to £0.491m.

## **6. MEDIUM TERM FINANCIAL PLAN**

6.1 As is stated earlier in this report the Local Government Grant Settlement has provided details of formula funding for the next two years 2013-14 and 2014-15, which has reduced this Authority's funding allocation by £5.5m by 2014-15.

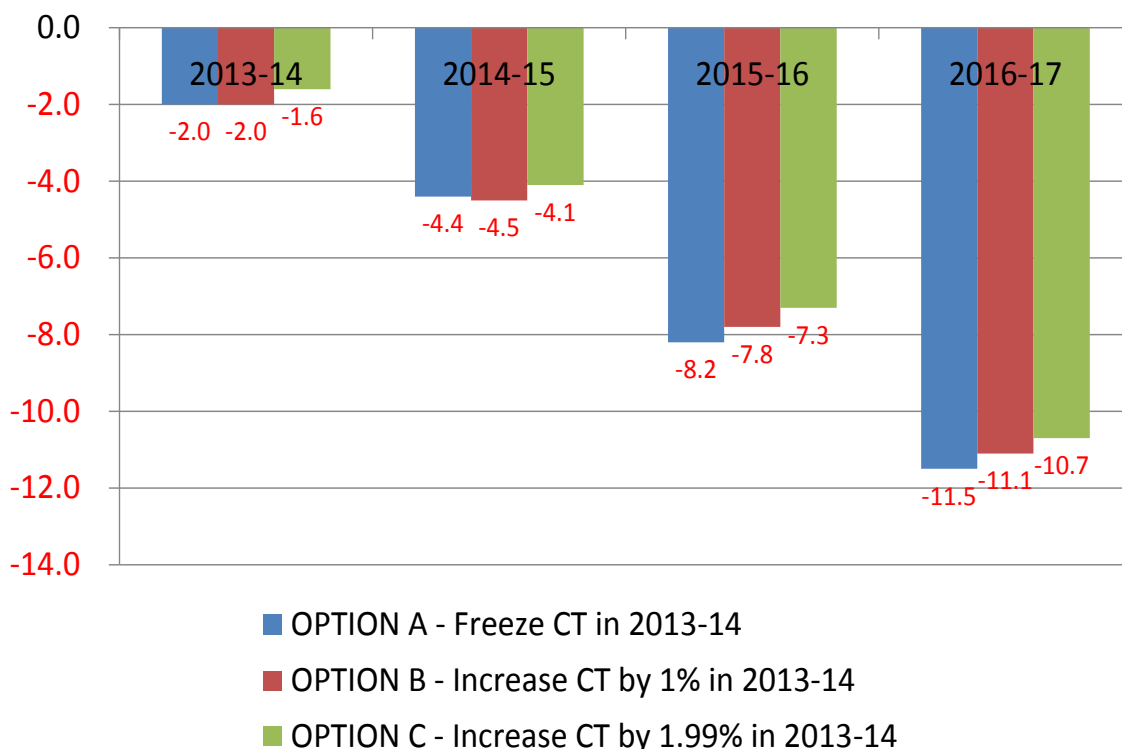
6.2 Looking beyond 2014-15, the Chancellors' Autumn Statement in December 2012 has confirmed that the austerity measures to reduce the structural deficit will need to continue for at least three years beyond 2014-15 i.e. until 2018. The next CSR announcement is expected to be made during the first half of 2013 which, in particular, will inform government department control totals for 2015-16. This will inevitably mean that in addition to the £5.5m of reductions already suffered further significant reductions must be planned for beyond 2014-15.

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. Prudent forecasts of future budgets can, however, 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 2016-17 to balance the budget.

**7. PLANS TO ACHIEVE BUDGET REDUCTIONS 2013-14 TO 2016-17**

7.1 The MTFP financial modelling tool has assessed a likely 'base case' scenario in terms of savings required over the period 2013-14 to 2016-17. Chart 2 below provides an analysis of those forecast savings required over and above the 2012-13 base budget based upon each of the Options A to C contained in this report.

**CHART 2 – FORECAST BUDGET SAVINGS (CUMULATIVE) 2013 TO 2017 (BASE CASE) - £MILLIONS**



7.2 As is illustrated in Chart 2, based on Option C (1.99% increase in CT), the budget savings required in 2013-14 are -£1.6m. This saving requirement rises to -£2.0m if either Options A (CT freeze) or B (1% increase) are agreed. This budget report proposes how required savings of -£1.6m are to be delivered in 2013-14 in order that a balanced budget can be set.

- 7.3 If the Authority was minded to opt for Option A then it should be emphasised that the amount of budget savings estimated beyond 2014-15 will be exacerbated by the removal of the CT reward grant in 2015-16. This option would require estimated savings of -£8.2m in 2015-16, as compared to an estimated figure of -£7.3m if council tax is increased by 1.99%.

#### ***Corporate Plan 2013-14 to 2014-15***

- 7.4 This budget report proposes a balanced budget for the next financial year 2013-14 including proposals as to how -£1.6m of budget savings can be achieved. Looking ahead to 2014-15, as is illustrated in Chart 2, the forecast savings requirement increases to £4.1m (based on Option C).
- 7.5 The Corporate Plan for 2013-14 to 2014-15 was agreed at the extraordinary Fire and Rescue Authority meeting held on 18 January 2013 and is now subject to a twelve week consultation period, before being considered by the Authority in June/July of 2013. In terms of planning and lead in times it is essential that proposals for the delivery of savings in 2014-15 are agreed well in advance in order that the Authority has the confidence that it will be in a position to set a balanced budget in 2014-15.
- 7.6 The Plan includes a range of proposals which, if agreed, will deliver savings of £6.8m in total. It is recognised, however, that this sum will not be deliverable by 2014-15 as the speed at which it can be delivered will be dependent on the natural turnover of staff during the next two years. Should this turnover not meet required levels then the Authority will need to utilise reserve balances in 2014-15 to meet any shortfall.
- 7.7 Delivery of savings beyond 2014-15 (forecast to be in the region of £11m by 2016-17) will need to be subject to a further range of proposals to be considered by the Authority well in advance of 2015 once further clarification has been received of our funding levels from 2015-16.

#### **8. PRECEPT CONSULTATION 2013-2014**

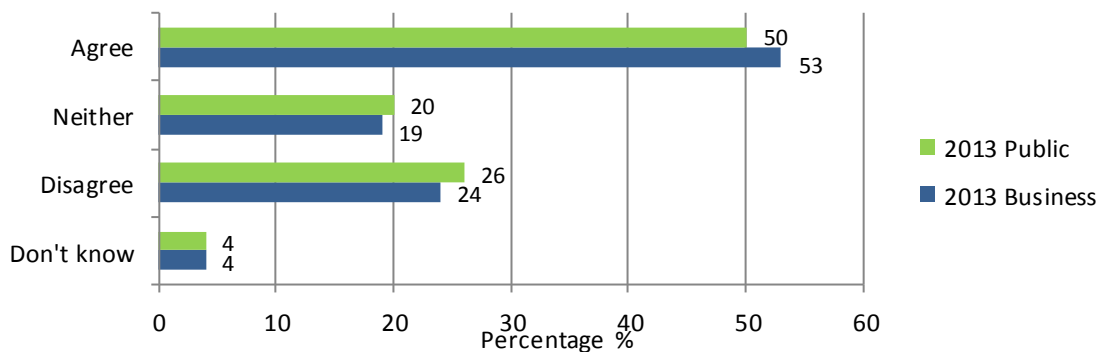
- 8.1 Section 65 of the Local Government Finance Act (1992) requires precepting authorities to consult non-domestic ratepayers on its proposals for expenditure.
- 8.2 The consultation also included members of the public as it was deemed inappropriate not to include the public's views on the option of 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;
  - 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 7 January 2013 and was undertaken by BMG Research. Appendix D to this report (page numbered separately and enclosed with the agenda to this meeting) provides the full report of the results produced by BMG Research.

## RESULTS

**Question 1. How strongly do you agree or disagree that it is reasonable for the Authority to consider *increasing* its council tax charge for 2013/14 in order to limit the impact of the funding cuts on the levels of emergency service?**

- 8.5 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 2013/14.

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 2013/14



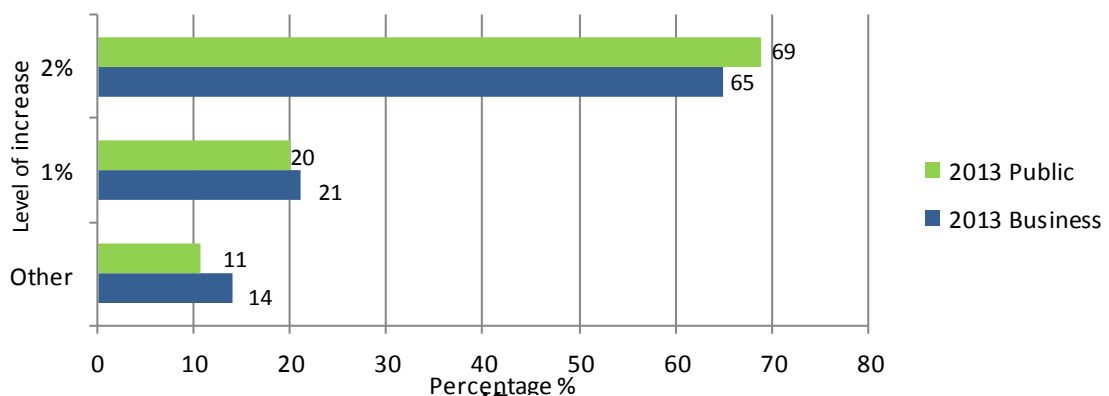
- 8.6 In the 2012 survey, 33% of business respondents and 30% of public respondents disagreed that it was reasonable for the Authority to consider increasing its Council Tax charge for 2013/14. The 2013 survey results, therefore, suggest that opinion has changed over the year with less respondents disagreeing.

- 8.7 Respondents who answered strongly agree or agree to Question 1 were asked:

**Question 2. From the following, what level of increase would you consider it reasonable for the Authority to increase its element of the Council Tax charge by? Please give one answer only**

- 8.8 The results to Question 2, 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 2% this is consistent for both public and business responses.

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

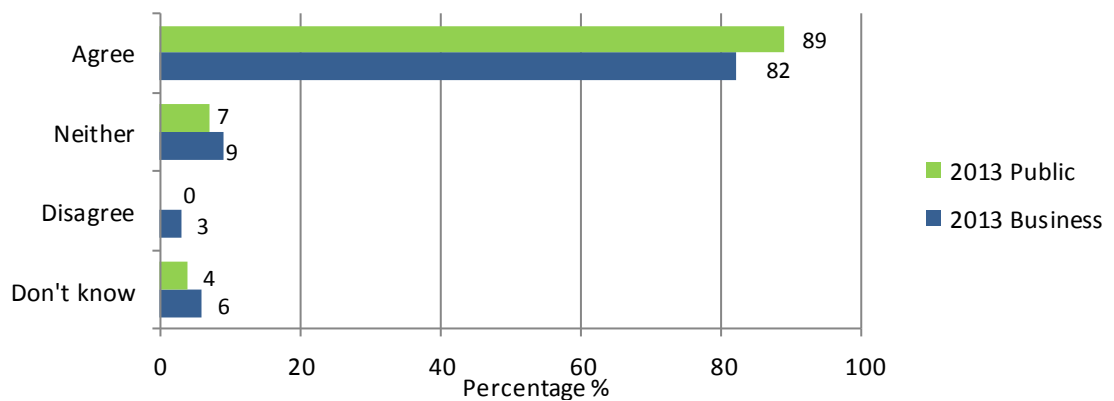


**Question 3. How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money?**

8.9 A total cost of £47 per head of population was quoted to provide context for an assessment of value for money. In previous years' this question has referred to the total cost of running the service in terms of the Band 'D' Council Tax charge. It was considered that this may cause some confusion as the survey would contain two Band 'D' costs: the total cost of running the Service and the precept figure. 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.

8.10 In 2012, 84% of public respondents and 77% of business respondents agreed that the Service provided value for money. Therefore, the 2013 results suggest improvement with more respondents agreeing that the Service provides value for money.

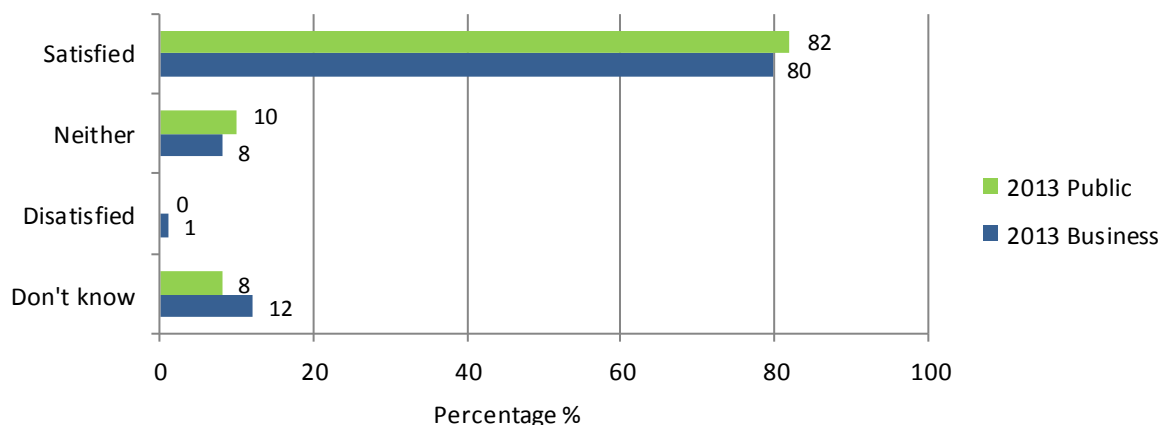
Graph 3: How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money?



**Question 4. How satisfied are you with the service provided by Devon and Somerset Fire and Rescue Service?**

8.11 The results in Graph 4 show that there are high levels of satisfaction. The responses from business show a large increase in satisfaction over the 2012 results where 65% were satisfied compared with 80% in 2013. Public satisfaction was similar to the 81% satisfaction reported in 2012.

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



## **CONCLUSION**

- 8.12 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 2013/14. For those who agreed the Authority should consider increasing the level of precept the most support was for a 2% 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 C to this report.

## **10. SUMMARY**

- 10.1 The Authority is required to set its level of revenue budget and council tax for 2013-2014 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 2013-2014. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for the Authority.
- 10.2 The Resources Committee, at its meeting on 4 February 2013, considered the implications of each of the three options considered in this report and subsequently resolved to recommend Option C (increase in council tax of 1.99%) for approval by the Authority.

**KEVIN WOODWARD**  
Treasurer

**LEE HOWELL**  
Chief Fire Officer

**APPENDIX A TO REPORT DSFRA/13/4**

**DRAFT REVENUE BUDGET REQUIREMENT 2013-2014**

**(BASED ON OPTION C IN REPORT)**

		£m	£m	%
	<b>Revenue Budget 2012-2013</b>		<b>78.677</b>	
	<b><u>Provision for Pay and Prices</u></b>			
1.	Uniformed Pay (assumed 1.0% from July 2013))	0.456		
2.	Non-Uniformed Pay (assumed 1.0% from April 2013)	0.102		
3.	Provision for prices increases (assumed CPI of 2.7%) plus additional allowance for fuel, utilities and non-domestic rates)	0.264		
4.	Provision for inflationary increase in pension costs.	0.047		
			0.869	1.10%
	<b><u>One-off Provisions included for 2012-13 Budget only</u></b>			
5	Revenue Contribution towards Exeter Airport capital scheme	(0.750)		
6	Revenue Contribution to Capital	(1.850)		
7	Refurbishment of Fire Control	(0.490)		
8	Change and Improvement Programmes	(0.936)		
9	Defibrillators on all fire appliances	(0.076)		
			(4.102)	(5.21)%
	<b><u>Inescapable Commitments</u></b>			
10	Reduction in debt charges from approved capital programme			
11	Pay increments and other pay changes	0.521		
12	Provision for additional employers pension contributions resulting from auto-enrolment legislation	0.336		
13	Increase in insurance premiums	0.164		
14	Additional provision for utilities and non-domestic rates costs	0.074		
15	Contribution to localised council tax benefit schemes	0.027		
16	Other minor changes (net)	0.038		
			1.160	1.47%
	<b><u>Invest-to-Save Initiatives</u></b>			
17	New Technology Projects	0.846		
18	Business Support Initiatives (including procurement and process improvement projects)	0.397		
19	Service Delivery Projects (Light Rescue Pumps, FireControl)	0.408		
20	Corporate Plan Programme – Governance Costs	0.102		
			1.753	2.23%
	<b><u>Budget Savings</u></b>			
21	Budget Management	(1.082)		
22	Business Support Changes	(0.150)		
23	Vacancy Management	(0.341)		
			(1.573)	(2.00)%
	<b>TOTAL CHANGES (LINES 1–23)</b>		<b>(1.893)</b>	<b>(2.41)%</b>
	<b>DRAFT REVENUE BUDGET 2013-14</b>		<b>76.784</b>	

**Lee Howell**  
**CHIEF FIRE OFFICER**

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Mr Andrew Lock  
Communities and Local Government  
Zone 5/J2 Ashdown House  
Eland House  
Bressenden Place  
LONDON SW1E 5DU

**SERVICE HEADQUARTERS**  
**THE KNOWLE**  
**CLYST ST GEORGE**  
**EXETER**  
**DEVON**  
**EX3 0NW**

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Your ref :  
Our ref :  
Website : [www.dsfire.gov.uk](http://www.dsfire.gov.uk)

Date : 15<sup>th</sup> January 2013  
Please ask for : Mr Woodward  
Email : kwoodward@dsfire.gov.uk

Telephone : 01392 872200  
Fax : 01392 872300  
Direct Telephone : 01392 872317

Dear Mr Lock,

**RESPONSE FROM DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY  
IN RELATION TO THE LOCAL GOVERNMENT FINANCE SETTLEMENT 2013-  
2014**

I am writing to you on behalf of Devon and Somerset Fire and Rescue Authority to make representations in response to the settlement as it affects our authority's funding.

Firstly, the Authority welcomes the fact that the fire formula funding now includes, for the first time, a fire and rescue sparsity adjustment to provide an element of recognition to the disproportionate costs of providing fire cover in a more rural area. As your department will be aware, we have been asking for this for a very long time, and it is pleasing therefore that your officials have finally been convinced of the argument.

However, we are extremely disappointed to find that, even with this inclusion, we find ourselves with the third worst settlement of all fire and rescue in England for 2013-14. Your own figures, as included in the Business Rates Retention – Technical Document issued in July 2012, indicated that Devon and Somerset FRA would be the biggest gainer of all from the inclusion of a fire and rescue sparsity adjustment, with an additional £0.9m (2.9%) of grant funding. We are therefore perplexed to find that our total reduction in formula funding (-10.3% in 2013-14) is more than the reductions suffered by the metropolitan authorities (average of -8.2%).



We are also very disappointed that we have been unsuccessful in our capital bid which would have enabled us to push ahead with our plans to introduce Light Rescue Pumps (LRP's) across the Service over the next four years. As our bid indicated, this initiative would deliver significant efficiency savings and we are therefore very surprised that no funding has been made available to us from the capital efficiency bid process. On his visit to Taunton Fire Station on 6<sup>th</sup> December 2012 the Fire Minister saw for himself one such vehicle and seemed very impressed with the innovation associated with this project.

We provide below five specific issues that we wish to make representations on;

- 1) As is stated above we welcome the new inclusion of a sparsity adjustment in the fire and rescue formula used to distribute formula funding. For many years we have challenged the inequitable formula distribution which included little recognition of the disproportionate costs of providing fire and rescue cover over a rural area. The fact that this adjustment was not included much earlier has meant that previous settlements have not reflected these costs meaning rural authorities have for many years not received their fair share of formula grant resulting in significant amounts of grant being lost. This has led to more grant being distributed to the more urban areas. This is illustrated by looking at grant per head of population for urban and rural authorities :

2013-2014 Average formula funding per head = £18.30

Urban Authorities

Cleveland	£31.76
London	£28.61
Merseyside	£26.73

Rural Authorities

Hereford and Worcester	£12.72
Wiltshire	£12.13
Dorset	£13.27
Devon and Somerset	£16.64

If Devon and Somerset were to receive the average grant per head this would provide additional grant funding of £3m in 2013-14.

**What Devon and Somerset FRA is seeking:** *We ask that the 2013-14 distribution be re-assessed to ensure that your commitment to provide further financial recognition to rural fire and rescue authorities is honoured. If your department is not prepared to do this we ask for an explanation as to why, when our 2013-14 grant now includes recognition for sparsity (£0.9m by your own figures) our overall grant reduction in 2013-14 is the third worst of all fire and rescue authorities in England. We have asked the Technical Support Team within the Society of County Treasurers to carry out a piece of work on our behalf to analyse our settlement and advise us why we have moved from third best to third worst, only to hear from them that it is virtually impossible now to quantify how each formula change has effected allocations as each change within the formula does not have a cumulative effect.*

- 2) We are very concerned that further grant reductions to come from 2015-16 will be applied evenly across all fire and rescue authorities which would put a disproportionate burden on rural authorities whose ability to deliver significant savings from changes in crewing arrangements and shift patterns is much more restricted given the reliance on the Retained Duty System. For instance here in Devon and Somerset we have only fifteen stations out of eighty five that operate any wholetime cover. An expectation that rural FRAs are to deliver the same proportion of cuts as the urban FRAs will have a disproportionate impact on those rural FRAs.

**What Devon and Somerset FRA is seeking:** *We ask for a meeting with the Fire Minister, prior to the next spending review in 2013, to seek assurances that the next round of cuts are not applied evenly across all FRAs which would have a disproportionate impact on those rural FRAs who have much more limited ability to deliver significant savings from changes in crewing arrangements and shift patterns.*

- 3) We are very disappointed that our application against the capital bidding process has been unsuccessful. We have been working up an innovative project to deliver 70 smaller type of fire appliance (LRPs) across the service over the next four years. The Minister saw one of these appliances himself on his visit to Taunton Fire Station on the 6<sup>th</sup> December and seemed very impressed with what he saw. This is a £7.5m project which would deliver significant benefits both cashable and environmental when compared to procurement of current type appliances. Given existing pressures on our capital programme and our limitations on increasing debt charges we were reliant on a successful bid to enable us to push ahead with this exciting project.

**What Devon and Somerset FRA is seeking:** *We ask that our application for capital funds against the capital bidding process to be reviewed to enable us to push ahead with our innovative plans to roll out 70 LRP's over the next four years.*

- 4) We welcome the capital grant allocation of £1.4m in 2013-14 and 2014-15 which is distributed to all FRAs based upon population. However we do not believe that the current model used to distribute the total grant available, by way of population, is a fair system as it does not reflect the real capital investment needs of FRAs. For instance, under the current distribution methodology Tyne and Wear FRA attracts a grant of £1.1m and yet it only has 17 fire stations (£64k per station), compared to the £1.4m grant of Devon and Somerset with 85 stations (£15k per station). Similarly, Hampshire and Essex FRAs receive more grant than Devon and Somerset and yet those FRAs have 40% less fire stations to maintain and eventually replace. As an FRA whose number of fire stations and appliances are only second to London Fire (£4.9m grant), our capital investment pressures are significantly bigger than other FRAs and we feel that the distribution model should reflect this.

**What Devon and Somerset FRA is seeking:** *We would like to see the distribution model changed to a much fairer system which takes into account the number of fire stations and appliances, rather than an arbitrary population method which does not adequately reflect capital investment needs.*

- 5) Given the relatively small cash amount increases in council tax for fire and rescue services, we have recently been lobbying Devon and Somerset MP's to support a change in the rules associated with the need to hold a local referendum to increase council tax above a set percentage, to a system which would replace a set percentage with a cash amount. As I am sure you will be aware the costs associated with holding a referendum for any fire and rescue service would make such a proposal uneconomic to implement. Given that we are a merged authority (the only voluntary merger) we in Devon and Somerset have fifteen billing and unitary authorities to liaise with in our area, which means that the costs associated with holding a referendum, both administration and potential rebilling costs, would be absolutely disproportionate to the amount that could be raised in council tax and would not therefore represent good value for money to taxpayers.

We notice that the Minister is sympathetic to this approach in so much as he has allowed some fire and rescue services to set a council tax increase up to £5, however disappointingly this does not apply to us as we are not in the lower quartile of Band D council tax. Surely all fire and rescue authorities should be able to benefit from this new approach rather than applying a very blunt instrument to decide on eligibility.

**What Devon and Somerset FRA is seeking:** *We would like the trigger for holding council tax referendums for all fire and rescue services to be measured by a set cash amount rather than the current system of measuring against a set percentage. If the Minister is not minded to apply the £5 limit to all fire and rescue services then a tapered approach could be applied based upon cash limits.*

## **SUMMARY**

This Authority welcomes the opportunity to provide its views on the proposed methodology used to distribute fire formula grant and capital grants, and asks that the representations made in this letter are given serious consideration by your department.

Your department will be well aware of the innovation that has been demonstrated within Devon and Somerset to date, including the only fire service to have merged in recent years, the creation of a commercial arms-length company to increase income generation, the transformational approach to change and improvement, and the introduction of LRP's over the next four years. We are very proud of the innovative approach that is being applied within the Service and feel disappointed that none of this work is being rewarded within grant settlements. We would at least expect a more equitable approach to grant distribution.

If the Minister is not minded to re-assess the grant distribution, both revenue and capital, for 2013-14, we would ask for explanations as to why we have suffered so badly particularly when a sparsity factor is now included which should have given us a fairer settlement. We would like to hear how the fire formula funding reflects the costs of delivering a fire service twice the size of Norfolk, the Fire Ministers own fire Service.

Yours faithfully

Kevin Woodward

Treasurer to Devon and Somerset Fire and Rescue Authority

**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 2013-14 BUDGET**

The net revenue budget requirement for 2013-14 has been assessed as £76.784m. 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 31<sup>st</sup> March 2014, 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 2013-14 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO VOLATILE CHANGES**

Budget Head	Budget Provision 2013-14 £m	RISK AND IMPACT	MITIGATION
Retained Pay Costs	11.9	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 2013-14, 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 £1m 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	2.0	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 2013-14 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	0.9	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 2013-14 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 2013-14, it is highly possible that increases could be in excess of the budget provided.	In establishing a General Reserve for 2013-14 an allowance has been made for a potential overspend on this budget.
Treasury Management Income	-0.1	As a result of the economic downturn in recent years, and the resultant low investment returns, the ability to achieve the same levels of income returns as in previous years is diminishing. The uncertainty over future market conditions means that target investment returns included in the base budget could be at risk.	The target income for 2013-14 has been set at a prudent level of achieving only a 0.5% return on investments. Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Income	-0.9	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £0.9m of external income. Whilst the work of the Commercial Services Arm will seek to at least hit this target in 2013-14, 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	5	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 2013-14 to 2016-17. 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, and the further austerity measures to come, the strategy for setting a budget for 2013-14 has been very mindful of the likely funding scenarios over the next four years rather than just one year. Therefore the budget for 2013-14 has included some new invest-to-save funding e.g. investment in new technology to support the need to deliver savings from back office functions during this period.

## **THE ADEQUACY OF THE LEVEL OF RESERVES**

It should be noted that Combined Fire and Rescue Authorities have only had the legal power to hold reserves since 2004. 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 £4.873m, which represents 6.2% of the revenue budget. This may increase by the end of the financial year should the projected underspend against the current year's budget result in a further transfer of funds into the Reserve.

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 a reserve level at 6.2% compares to an average reserve balance of 9.0% for all fire and rescue authorities, which places this Authority in the 4<sup>th</sup> quartile (lower) for all FRAs.

Given the uncertainty over the scale of budget reductions that the Authority will be required to find over the next four years, 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 and beyond.

### **CONCLUSION**

It is considered that the budget proposed for 2013-14 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