



# DEVON & SOMERSET FIRE & RESCUE AUTHORITY

<b>REPORT REFERENCE NO.</b>	<b>DSFRA/13/14</b>
<b>MEETING</b>	<b>DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY</b>
<b>DATE OF MEETING</b>	<b>10 JULY 2013</b>
<b>SUBJECT OF REPORT</b>	<b>MEDIUM TERM FINANCIAL PLAN 2013-2017 – IMPACT OF 2013 SPENDING ROUND ANNOUNCEMENT</b>
<b>LEAD OFFICER</b>	<b>TREASURER</b>
<b>RECOMMENDATIONS</b>	<i>That the revised forecasts of savings targets required to 2016-17, as a consequence of the Chancellors 2013 Spending Round announcement, be noted.</i>
<b>EXECUTIVE SUMMARY</b>	<p>The MTFP is used to provide forecast revenue budget savings required over a four year period based upon a number of key assumptions. The most recent forecasts, covering the period 2013-14 to 2016-17, were considered at the budget meeting in February 2013 when setting levels of revenue budget and council tax for 2013-14.</p> <p>The Chancellors 2013 Spending Round announcement on 26 June has provided departmental targets for 2015-16 which confirmed that for local government, including fire and rescue authorities, central government funding will be reduced by 10% in 2015-16. The announcement also included details of government expectations in relation to council tax and pay awards from 2014-15.</p> <p>This report provides a summary of the key points included in the announcement as they impact on fire and rescue authorities, together with a revision to the forecast savings figures included in the Authority MTFP.</p>
<b>RESOURCE IMPLICATIONS</b>	As indicated in the report.
<b>EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)</b>	Not applicable.
<b>APPENDICES</b>	Appendix A – Reserves and Provisions as at 31 March 2013
<b>LIST OF BACKGROUND PAPERS</b>	2013-14 Revenue Budget and Council Tax Levels Report (DSFRA/13/4) to the budget meeting held on 18 February 2013.

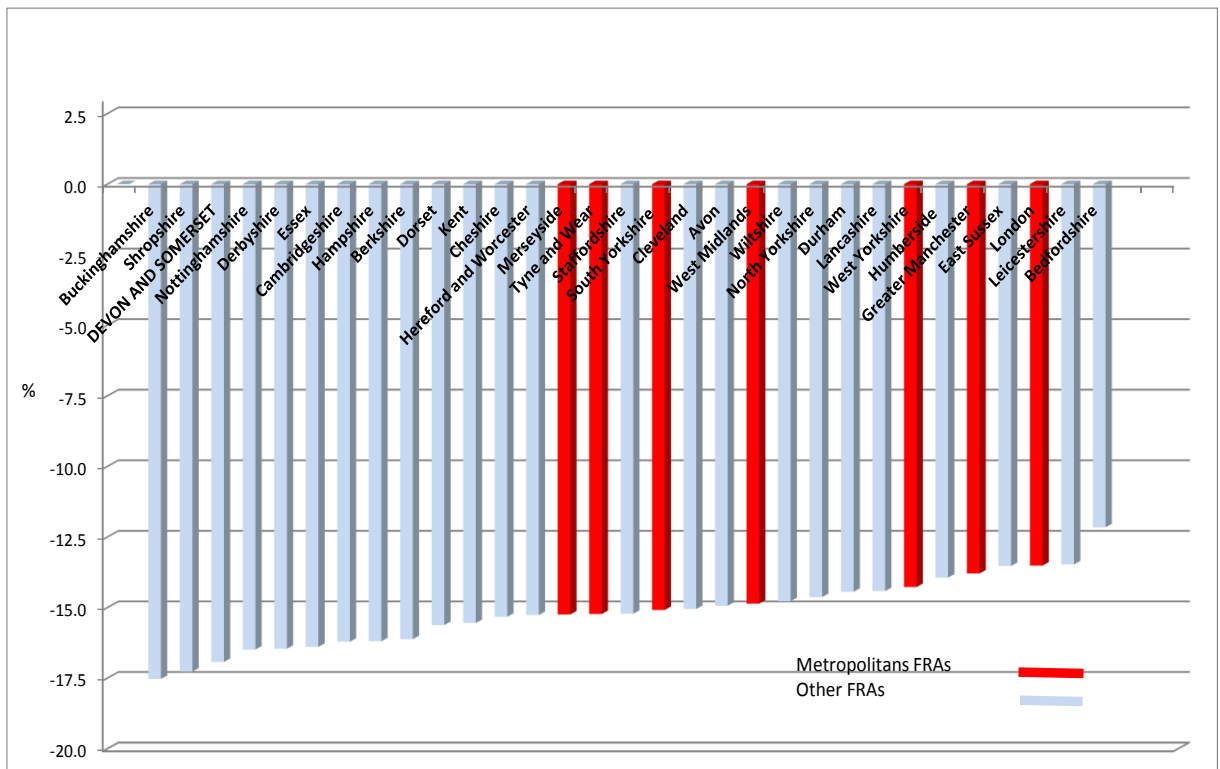
## **1. INTRODUCTION**

- 1.1 Members will be well aware of the economic background which 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.
- 1.2 For fire and rescue authorities, this resulted in a real terms reduction in government grants of 25% by 2014-15. The most recent 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. For Devon and Somerset FRA we know that this has resulted in a reduction in grant of £5.5m by 2014-15, equivalent to -17.6% over 2012-13.
- 1.3 Looking beyond 2014-15, the Chancellors' Autumn Statement in December 2012 confirmed that the austerity measures to reduce the structural deficit will need to continue for at least three further years beyond 2014-15 i.e. until 2018. The latest CSR announcement made on the 26<sup>th</sup> June 2013 provided departmental targets in relation to 2015-16 only. This included details of a -10% reduction in government funding for local government, including fire and rescue authorities, in 2015-16. The announcement also included details of government expectations in relation to council tax increases and public sector pay awards from 2014-15.
- 1.4 The Authority's Medium Term Financial Plan provides forecasts of revenue budget savings required over a four year period based on a number of key assumptions e.g. grant funding, council tax increases, pay and prices increases, pension liabilities and other known spending pressures. The most recent forecasts of savings were reported to the Authority in February 2013 when considering levels of budget and council tax for 2013-14. At that time it had been forecast that on-going savings of £4.1m are required by 2014-15 over and above the 2012-13 base budget, rising to £10.7m by 2016-17.
- 1.5 This report provides a summary of the key changes included in the 2013 Spending Round announcement as they affect fire and rescue authorities, and revised forecasts of savings targets to include the impact of these changes.

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

- 2.1 Members will recall that the 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. For fire and rescue authorities (FRAs) this included average reductions in formula funding of -8.9% in 2013-14 and a further -7.5% in 2014-15, consistent with the government commitment that the more significant reductions in Fire funding are to be back-loaded to 2013-14 and 2014-15 of the four years covered by CSR 2010.
- 2.2 For Devon and Somerset FRA the reductions in grant funding were above the average at -10.3% in 2013-14 over 2012-13, and a further reduction of -7.3% in 2014-15 over 2013-14, resulting in an overall reduction of -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**



2.3 As is illustrated by Chart 1 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.

2.4 A reduction in grant of -17.6% represents a cash reduction of -£5.5m by 2014-15 over 2012-13. Whilst this is a significant change and is worse than had been expected it is within the range of savings figures forecast by the Authority MTFP and therefore our planning since CSR 2010 has catered for this magnitude of change. The Corporate Plan, considered elsewhere on the agenda, seeks approval of proposals designed to address the budget shortfall to 2014-15.

**3. CHANCELLORS SPENDING ROUND 2013**

3.1 Looking beyond 2014-15, the Chancellors’ Autumn Statement in December 2012 made it clear that the austerity programme to reduce the structural deficit will need to continue for at least three further years beyond 2014-15 i.e. until 2018. Whilst grant figures for years beyond 2014-15 will not be known for some time (November 2014 for 2015-16), it is highly likely that the scale of further reductions in the two years 2015-16 and 2016-17 will be as much as the whole of the four years covered by CSR 2010, equivalent to a further £5m reduction in the Devon and Somerset FRA grant by 2016-17.

- 3.2 The Chancellors 2013 Spending Round announcement on 26 June 2013 provided departmental targets for central funding for the year 2015-16. The headline figure in relation to local government is that the CLG – Local Government allocation has been reduced by -10% in 2015-16 over 2014-15. A summary of the measures included in the announcement - as they may impact on fire and rescue authorities is provided below:
- Headline reduction in CLG Local Government Funding of -10% in 2015-16 over 2014-15 (£25.6bn in 2014-15 to £23.5bn in 2015-16).
  - The Government is relatively protecting fire and rescue authorities by applying a - 7.5% reduction to their budgets overall. The Knight Review made a strong case for the opportunities for further reform within the Fire and Rescue Service. Therefore the Government is creating.
    - a £45 million Fire Efficiency Incentive Fund to invest capital in ensuring that fire service assets such as fire stations are appropriately located to ensure efficient and effective service delivery; no detail as to whether this is in addition to the current £70m in the 2014-15 figures and
    - from a -10% reduction in grant that would otherwise be applied to FRAs funding, a £30 million (2.5%) resource fund will be available on a bid-for basis through the local government settlement to encourage joint working between fire and rescue authorities, collaboration with other blue lights services, and to meet the upfront costs of service transformation.
  - The settlement supports those local authorities who have kept council tax down since 2011-12 by continuing to provide for previous council tax freeze grants in their 2015-16 settlement. This is worth £833 million to local authorities.
  - The Government will also make additional funding available in 2014-15 and 2015-16 for local authorities who choose to freeze their council tax, and plans to set the council tax referendum threshold at 2 per cent for 2014-15 and 2015-16.
  - Budget 2013 had previously announced that public sector pay awards in 2015-16 would be limited to an average of up to 1%. The Spending Round announces further action to ensure that public sector workers do not receive an automatic pay increase purely as a result of time in post.
  - The Government will consult on the local government finance settlement for 2015-16 in the normal way (November 2014), recognising that some local authorities are more dependent on central funding than others.

#### **4. MEDIUM TERM FINANCIAL PLAN 2013-2017**

- 4.1 The Authority MTFP is used to model forecast of savings targets over a number of years, typically four years. Clearly it is not possible to provide forecasts into future years with absolute certainty, however based upon prudent assumptions in relation to government grant figures, pay and prices increase and other spending pressures e.g. pension liabilities, forecasts of future budgets and savings can be made to inform financial planning scenarios.
- 4.2 The most recent forecasts, for the years 2013-14 to 2016-17, were reported to the Authority at its budget meeting in February 2013 in considering levels of revenue budget and council tax for 2013-14. At that time it had been forecast that further savings of £4.1m were required by the end of the CSR 2010 period, rising to £10.7m by 2016-17. A summary of these figures are illustrated in Table 1 overleaf.

**TABLE 1 – EXTRACT FROM MTFP 2013-2017 (February 2013)**

	2013-14 Actual	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
	£m	£m	£m	£m
Revenue Budget Requirement	78.357	79.392	81.000	83.124
- Revenue support business rates baseline funding	(34.962)	(32.691)	(30.075)	(27.820)
- Council tax precept	(41.822)	(42.597)	(43.577)	(44.578)
<b>Total Funding</b>	<b>(76.784)</b>	<b>(75.288)</b>	<b>(73.652)</b>	<b>(72.398)</b>
<b>BUDGET SHORTFALL</b>	<b>(1.573)</b>	<b>(4.104)</b>	<b>(7.348)</b>	<b>(10.726)</b>

- 4.3 The revenue budget for 2013-14 has now been set which includes the delivery of £1.573m of on-going savings. The MTFP indicates that further savings of £2.531m will need to be delivered in 2014-15 in order that a balanced budget can be set which will bring cumulative savings to £4.104m over 2012-13.

Revised MTFP 2013-2017

- 4.4 Table 2 below provides a summary of revised forecast savings figures based upon the measures included in the Spending Round announcement.

**TABLE 2 – EXTRACT FROM MTFP 2013-2017 (June 2013)**

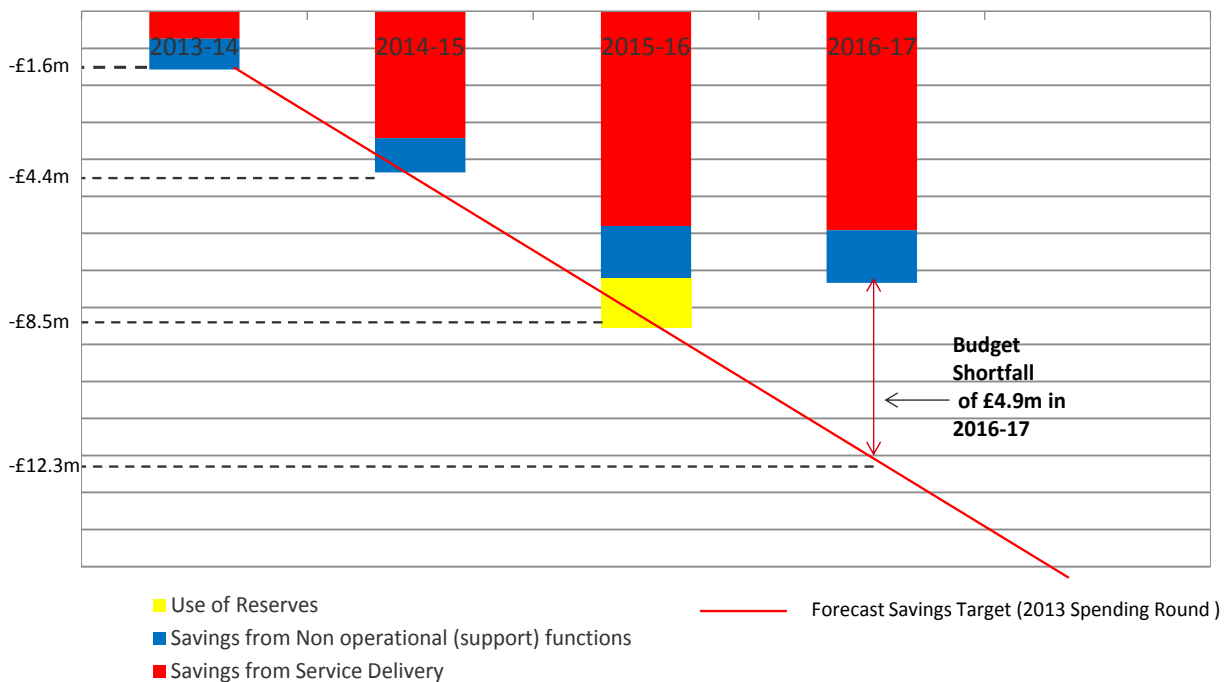
	2013-14 Actual	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
	£m	£m	£m	£m
<b>Revenue Budget Requirement</b>	<b>78.357</b>	<b>78.944</b>	<b>79.976</b>	<b>81.963</b>
- Revenue support business rates baseline funding	(34.962)	(32.341)	(29.107)	(26.778)
- Council tax precept*	(41.822)	(41.765)	(41.889)	(42.852)
- Council Tax Reward Grant*	-	(0.415)	(0.415)	-
<b>Total Funding</b>	<b>(76.784)</b>	<b>(74.521)</b>	<b>(71.411)</b>	<b>(69.630)</b>
<b>BUDGET SHORTFALL</b>	<b>(1.573)</b>	<b>(4.423)</b>	<b>(8.565)</b>	<b>(12.333)</b>

\* Assumed council tax freeze in 2014-15 and 2015-16, and reward grant equivalent to a 1% increase in council tax for one-year only.

4.5 As can be seen from the figures in Table 2 the impact of the measures included in the Spending Round has increased the savings targets from previous forecasts to £4.423m in 2014-15 rising to £12.333m in 2016-17. It should be emphasised that these revised forecasts assume a council tax freeze in 2014-15 and 2015-16 in line with government expectations. It is of course an Authority decision as to whether it chooses to increase the level of council tax in each year subject to the local referendum limit of a 2% increase. A 1% variation in council tax is equivalent to additional precept funding of £0.415m.

4.6 Chart 2 below provides a graphical illustration of the trajectory of revised savings required compared with savings planned to be achieved from the proposals included in the 2013-14 Corporate Plan.

**CHART 2 – REVISED FORECAST SAVINGS REQUIRED (SPENDING ROUND 2013)**



4.7 The forecasts in Chart 2 illustrate that the planned savings to be delivered from the Corporate Plan proposals will be sufficient to balance the budget in 2014-15, but not go far enough to balance the forecast shortfall from 2015-16. It is evident therefore that a Phase 2 of further planned savings will be needed to be brought forward for consideration with sufficient lead in time to deliver these savings from 2015.

**5. RESERVES AND BALANCES**

5.1 Included in the Authority Reserve balances as at 31 March 2013 is an amount of £3.395m held in the CSR 2010 Budget Strategy Reserve. This Reserve has been built up since 2010 from budget underspends and is part of the overall strategy to provide a financial contingency during the period of austerity. It is anticipated that calls will be made upon this Reserve during the next two years to fund redundancy packages required to reduce staffing numbers at the pace required. Any remaining balance is required to provide contingency against the risk of savings requirements exceeding the forecasts included in the MTFP.

5.2 Appendix A provides a summary of Reserve Balances as at 31 March 2013, including the Earmarked Reserve identified in paragraph 5.1.

5.3 The Authority holds two types of Reserves:

**General Reserve (£5.2m)** – usage from this Reserve is **non-specific** and is held to fund any unforeseen spending that had not been included in the base budget e.g. potential pension liability over and above that provided for in relation to the Employment Tribunal ruling in favour of retained firefighters under the Part-Time Workers (less than favourable Working Conditions) Regulations, and excessive operational activity resulting in significant retained pay costs. A balance of £5.2m is equivalent to 6.59% of the revenue budget, which whilst exceeds the 5% level agreed by the Authority as an “in principle” minimum, is by no means generous and places us in the lower quartile of Reserve balances compared to all FRAs.

**Earmarked Reserves (£10.6m)** – these reserves are held to fund a **specific** purpose and can only be used to fund spending associated with that specific purpose e.g. CLG funding for the National Fire Control Networked System, Direct Funding towards capital. Therefore aside from the balance of £3.395m identified in paragraph 5.1 funds are not available to be redirected towards funding shortfalls.

## 6. SUMMARY

6.1 Members will be well aware of the difficult budget decisions to be made during this period of austerity, which is now anticipated to continue three years beyond 2014-15 to 2018. It is important that these decisions are made based upon robust forecasts of the savings required during this period.

6.2 Whilst it is accepted that forecasts cannot be made with absolute certainty the MTFP is used to forecast savings targets based upon prudent assumptions around grant levels, council tax increases, pay and prices increases and other spending pressures.

6.3 This report provides an update to previously reported savings targets to include the measures included in the Chancellors Spending Round announcement on 26<sup>th</sup> June 2013. These revised forecasts indicate that saving targets have increased to £4.4m by 2014-15, over 2012-13, rising to £12.3m by 2016-17.

**KEVIN WOODWARD**  
Treasurer

**APPENDIX A TO REPORT DSFRA/13/14**

<b>RESERVES AND PROVISIONS</b>		
	<b>Balance as at 31 March 2013 £000</b>	
<b>RESERVES</b>		
<b>Earmarked reserves</b>		
Grants unapplied in 2010-11	(2,250)	
Change & improvement programme	(511)	
Commercial Services	(253)	
Direct Funding to Capital	(3,876)	
CSR 2010	(3,395)	
2012-13 Budget Carry Forwards	(150)	
Grants unapplied in 2011-12	(139)	
Essential Spending Pressures	(103)	
<b>Total earmarked reserves</b>	<b>(10,677)</b>	
<b>General reserve</b>		
General fund balance	(5,187)	
Percentage of general reserve compared to net budget		-6.59%
<b>TOTAL RESERVE BALANCES</b>	<b>(15,864)</b>	
<b>PROVISIONS</b>		
Part time workers - retained fire fighters	(1,624)	
<b>TOTAL PROVISIONS</b>	<b>(1,624)</b>	