

REPORT REFERENCE NO.	DSFRA/15/1
MEETING	DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY (BUDGET MEETING)
DATE OF MEETING	20 FEBRUARY 2015
SUBJECT OF REPORT	2015-16 REVENUE BUDGET AND COUNCIL TAX LEVELS
LEAD OFFICER	Treasurer and Chief Fire Officer
RECOMMENDATIONS	<p>(a) <i>that the Authority consider the contents of this report, together with any relevant recommendation made by the Resources Committee, with a view to determining either:</i></p> <p>(i) <i>that the level of council tax in 2015-16 for a Band D property be set at £76.89, as outlined in Option A in this report, representing no increase over 2014-15, and that accordingly a Net Revenue Budget Requirement for 2015-16 of £74,329,400 be approved;</i></p> <p>OR</p> <p>(ii) <i>that the level of council tax in 2015-16 for a Band D property be set at £78.42, as outlined in Option B in this report, representing a 1.99% increase over 2014-15, and that accordingly a Net Revenue Budget Requirement for 2015-16 of £74,710,300 be approved;</i></p> <p>(b) <i>that, as a consequence of the decisions at (a) above:</i></p> <p>(i) <i>the tax base for payment purposes and the precept required from each billing authority for payment of a total precept of £43,693,693 (Option A) OR £44,562,981 (Option B), as detailed on Page 2 of the respective budget booklet, be approved;</i></p> <p>(ii) <i>the council tax for each property bands A to H associated with the total precept of £43,693,545 (Option A) OR £44,562,981 (Option B), as detailed on Page 2 of the respective budget booklet, 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 set out at Appendix C to this report, be endorsed.</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. The Secretary of State has announced that the council tax threshold to be applied in 2015-16 that would trigger a requirement to hold a council tax referendum is to be 2.0%. This report considers two potential options A and B below for council tax in 2015-16.</p>

	<p>OPTION A – Freeze council tax at 2014-15 level (£76.89 for a Band D Property).</p> <p>OPTION B – Increase council tax by 1.99% above 2014-15 (increase of £1.53 to £78.42).</p> <p>The Fire and Rescue Authority is asked to consider the contents of this report, and approve a council tax level for a Band D property and resultant revenue budget level for 2014-15.</p>
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	The contents of this report are considered compatible with existing human rights and equalities legislation.
APPENDICES	<p>A. Core Net Revenue Budget Requirement 2015-16.</p> <p>B. Letter of Representation sent to the CLG regarding the Provisional Local Government Finance Settlement.</p> <p>C. BMG Report on Precept Consultation for 2015-16 Revenue Budget (page numbered separately).</p> <p>D. Public Council Tax precept consultation results (page numbered separately).</p> <p>E. 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 Devon & Somerset Fire & Rescue Authority (“the Authority”) sets a level of revenue budget and council tax for the forthcoming financial year, before 1 March, so 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 2015-16. 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 a local authority to hold a council tax referendum where an authority’s council tax increase 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 On 4 February 2015 the Department for Communities and Local Government (CLG) confirmed, as part of the final Local Government Settlement, that the council tax limit to be applied in 2015-16, which if exceeded would trigger the need to hold a referendum, is to be 2.0%.
- 1.4 Given that the administration costs associated with holding a local referendum for the Authority for one year are estimated to be in the region of £2.3m, this report does not include any proposals to go beyond the referendum limit. Instead it considers two options, A and B below, of which the maximum proposed increase is 1.99%.
- **OPTION A** – Freeze council tax at 2014-15 level (£76.89 for a Band D Property).
 - **OPTION B** – Increase council tax by 1.99% above 2014-15 (£78.42).
- 1.5 The meeting of Resources Committee held on the 10 February 2015 considered the implications of each of these options, and resolved to recommend Option B (increase in council tax of 1.99%) to the Authority for approval (Minute RC/15 refers).

2. FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2015-16

- 2.1 The final Local Government Finance Settlement, as announced on 4 February 2015, provided local authorities with individual settlement funding assessment figures for 2015-16. It should be noted that as a result of significant changes to the local government finance system introduced in 2013-14 which introduced the new Business Rates Retention Scheme, the new terminology attached to settlements is “Settlement Funding Assessment” (SFA), which replaces the previous “Formula Funding”.
- 2.2 The SFA for this Authority results in a reduction in 2015-16 of 8.9% over 2014-15:

TABLE 1 – SETTLEMENT FUNDING ASSESSMENT FOR DSFRA	£m	%
SFA 2014-15	32.283	
SFA 2015-16	29.422	
Reduction over 2014-15	-2.861	-8.9%

- 2.3 This figure is in line (anticipated 8.4% reduction) with the figure already included within the Authority’s medium term financial plans, and represents a decrease of £0.153m against the figure used to inform Corporate Planning from 2014 onwards.

- 2.4 A reduction of £2.9m in 2015-16 means that DSFRA grant funding has been reduced by a total of £8.7m since 2012-13, equivalent to 22.8% meaning that the Authority has suffered the third worst settlement of all FRAs over this period. This is very surprising given that in the previous two years from 2010 the Authority had received the third best settlement, and that the formula used to distribute fire formula funding from 2014-15 included 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 one of the biggest gainers from the inclusion of the sparsity factor. It would appear, however, that other changes in the formula have worked against us.
- 2.5 A response to the provisional 2015-16 Local Government Finance Settlement announcement was sent to the CLG on behalf of the Authority expressing disappointment with the provisional settlement. A copy of this letter is attached as Appendix B. There was, however, no change between the provisional and final settlement figures.
- 2.6 The settlement announcement was for one year only due to the upcoming general election in May and therefore no illustrative SFA will be available for 2016-17 until publication of the settlement in December 2015.

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

- 3.1 As mentioned earlier, new rules introduced in 2013-14 require that a local referendum be held should an authority propose to increase its council tax beyond a government set limit (principles). A referendum would need to be held on behalf of this Authority 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.
- 3.2 If the referendum results in a 'yes' vote then the increase will stand. If, however, 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 would 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.
- 3.3 Given that Band D council tax figures for fire and rescue authorities are relatively low, typically only 4% of the total council tax bill, this Authority has argued with the 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 to liaise with fifteen billing authorities that would be required to hold referendums on its behalf, resulting in estimated referendum costs in the region of £2.3m. The Authority has asked CLG to consider an alternative set of principles for fire and rescue authorities which would apply a cash amount, e.g. £5, rather than applying a percentage increase. Disappointingly the provisional settlement confirms that a percentage increase threshold will continue to be applied in 2015-16.
- 3.4 On 4 February 2015 CLG confirmed the referendum threshold to be applied in 2015-16 is to 2.0%.

4. COUNCIL TAX AND BUDGET REQUIREMENT 2015-16

Council Tax

- 4.1 The government has again laid out its expectations that local authorities should freeze council tax in 2015-16 and to encourage this has again announced that it will pay a further Council Tax Freeze Reward Grant to those authorities that freeze, or reduce, council tax in 2015-16. This grant will be equivalent to an increase in council tax of 1.0%, estimated to be £0.489m (subject to confirmation of council tax base for 2015-16) for this Authority.
- 4.2 The government has indicated that the reward grant, as in 2014-15, will be included in the baseline funding for future years, although this is not guaranteed this is the best that can be expected given that it is very rare for a government to make commitments on behalf of future administrations.
- 4.3 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. Whilst this Authority agreed to freeze council tax in 2011-12 and take the reward grant of £1.099m (equivalent to 2.5% increase in CT), for the last three years it agreed to reject the grant and increase council tax by 3.0% in 2012-13 (referendum limit 4.0%), and 1.99% in 2013-14 and 2014-15 (referendum limit 2.0%). The decision not to take the grant was largely taken in order to protect future funding baseline figures given that it had been suggested that the reward grant for 2012-13 and 2013-14 would be paid for one year only. In the event the CLG confirmed that the 2011-12 and 2013-14 reward grant would be included in baseline funding figures.
- 4.4 For 2015-16 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 £0.77p increase for a Band D property, and is equivalent to a £0.436m variation on the revenue budget. In relation to the referendum option it is my view that given the costs of holding a referendum (circa £2.3m) it is not a viable option for this Authority to consider a council tax increase in excess of the 2% threshold. This report considers two options:
- **OPTION A** – Freeze council tax at 2014-15 level (£76.89 for a Band D Property).
 - **OPTION B** – Increase council tax by 1.99% above 2014-15 (£78.42).
- 4.5 Each of the options will result in a reduction in the amount of revenue funding for 2015-16. Table 2 overleaf provides a summary of the reduction associated with each option, including additional precept income.
- 4.6 At its meeting on 10 February 2015 the Resources Committee resolved to recommend that the Authority approve Option B i.e. to Increase council tax by 1.99%. It should be noted that, since submitting the draft budget report to the Resources Committee on 10 February, the figures in Table 2 (overleaf) have been revised to reflect updated Council Tax and Business Rates income from billing authorities, as verbally advised at that meeting. paragraphs 4.13 – 4.14 of this report provide further information.

TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – REDUCTION IN FUNDING 2015-16

	OPTION A	OPTION B
	Council Tax Freeze at £76.89	Council Tax Increase of 1.99% to £78.42
	£m	£m
TOTAL FUNDING 2014-15	75.794	75.794
Reduction in Formula Funding	-2.861	-2.861
Decrease in Retained Business Rates from Business Rate Retention System.	-0.124	-0.124
<u>Changes in Council Tax Precept</u>		
- increase in Council Tax Base resulting from introduction of local Council Tax Benefit System and increase in number of properties	0.731	0.731
- resulting from an increase in Band D Council Tax	-	0.869
- 2015-16 Council Tax Reward Grant	0.489	-
- Increase in Share of Billing Authorities Council Tax Collection Funds	0.301	0.301
Net Change in precept income	1.520	1.901
TOTAL FUNDING AVAILABLE 2015-16	74.329	74.710
NET REDUCTION IN FUNDING	-1.465	-1.084

4.7

The impact of each of the options over 2014-15 is summarised below:

Option A would result in the largest reduction in spending in 2015-16 of £1.465m, and the reward grant of £0.489m will be included in future baseline funding figures.

Option B would result in a smaller reduction in spending in 2015-16 of £1.084m and the amount available from the 1.99% increase in council tax of £0.869m will be built into future years funding levels. This means that an additional £0.381m of spending is available over option A.

Council Tax Base

- 4.8 Whilst the reduction in government funding of £2.861m is in line with previous expectations, the amount of precept income to be received in 2015-16 from billing authorities is surprisingly £1.0m more than had been forecast. This is largely as a result of an increase in the council tax base across the area of Devon and Somerset (£0.7m) which reflects increases in the number of properties e.g. Cranbrook in East Devon. In addition, following a review of council tax collection rates by districts, the amount of surplus available to this Authority has increased by £0.3m.

National Non Domestic Rates

- 4.9 In 2013-14 the government introduced significant changes to local authority funding with the introduction of the local business rates retention scheme. This now means that whereas previously 100% of business rates yield was held by central government and distributed as part of the local government finance settlement, 50% is now held centrally and the remaining 50% held locally of which 2% is distributed to the fire and rescue service.
- 4.10 This introduces a new financial risk to authorities in relation to significant fluctuations in income that may arise as a result of the appeals process, business rates growth/reduction and collection rates. Prior to 2013-14 this risk was borne by central government.
- 4.11 As part of the transitional arrangements of this new business rates retention scheme the government has put in place a safety net process to ensure that should any authority suffer a significant fluctuation from estimated income then the government will provide financial support. This safety net would only be triggered should an authority's actual business rate income drop below 92.5% of the safety net threshold figure included in the government baseline funding for the authority. This means that the local authority carries a financial risk in relation to the first 7.5%. For this Authority, this equates to £1m which will need to be managed through reserves.
- 4.12 At the time of presenting the budget report to the meeting of Resources Committee on 10 February 2015 it was verbally reported that some figures were still awaited from some billing authorities relating to the Authority share of council tax collection funds and estimated income from business rates.
- 4.13 This information has now been received which confirms that an amount £0.434m of funding will be received in addition to the figures previously reported. This amount can only be considered as one-off in nature as it relates to surplus/deficit on collection funds.
- 4.14 It is proposed that this amount be transferred into an Earmarked Reserve "Business Rates Safety Net" which will be used to smooth out year-on-year fluctuations in business rate income as outlined above. This Reserve will need to be reviewed annually as part of the budget process to assess its adequacy.
- 4.15 As £0.399m of this addition will be received by way of a Section 31 grant from CLG in year this proposal has impacted on the Net Budget Requirement figure previously reported by £35k.

Net Budget Requirement

- 4.16 Table 3 below provides a summary of the core budget requirement (*based upon Option A for illustrative purposes*) for 2015-16. A breakdown of the more detailed items included in this draft budget is included in Appendix A.

TABLE 3 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2015-16

	£m	%
Approved Net Revenue Budget Requirement 2014-15	75.794	
PLUS Provision for pay and price increases (Pay award assumed 1.0% in 2015 for Firefighters)	0.708	0.93%
MINUS Removal of one off provisions in 2014-15	(2.648)	-3.49%
PLUS Inescapable Commitments	0.806	1.06%
PLUS Invest-to-Save Items		
- Community Safety Pilot scheme	0.071	0.09%
- Business Rates Safety Net	0.148	0.20%
- Revenue Support to Capital Programme	1.737	2.29%
CORE SPENDING REQUIREMENT 2015-16	76.616	
INCREASE IN BUDGET OVER 2014-15 (£m)	0.822	1.08%

Invest-to-Save

- 4.17 A pilot is currently being run using dedicated community safety advocates and public campaigning in order to increase the number of Home Safety Checks that are carried out. There is a proven link between targeted prevention activity and a reduction to fire deaths and injuries. The intention of the new delivery model is to target more households who are at risk and therefore impart safety messages more effectively, improving public safety and reducing emergency call outs.
- 4.18 Elsewhere on the agenda is a separate report relating to the proposed capital programme 2015-16 to 2017-18. That report highlights the concerns of the Authority's reliance on increased borrowing to fund future capital investment requirements, particularly as a result of the lack of any government grant funding in 2015-16 since CLG are now issuing capital grant through transformational bid processes only. It is therefore recommended that the Authority supports revenue contributions to fund capital spending wherever possible in order to reduce borrowing requirement and therefore the resultant commitment required in the revenue budget to service debt charges.
- 4.19 It is therefore proposed that the revenue budget for 2015-16 includes provision for a direct revenue contribution towards capital spending therefore enabling debt charges to be maintained below the 5% Prudential Code limit up to 2017-18. Table 3 (Option A) above includes a contribution of £1.7m. Should Members be minded to approve Option B then it is proposed that the additional £0.381m of spending available is used to increase this contribution to capital to £2.1m.

Members will recall that DSFRS were successful in a collaborative bid for DCLG funding of £0.374m for a National Procurement Framework. Funds will be made available in 2015-16 to fully offset any additional costs incurred by the Authority.

Budget Savings

- 4.20 As is indicated in Table 3, the Core Budget Requirement for 2015-16 (which includes provision for pay and inflation, inescapable commitments and new investment) has been assessed as £76.616m. This is more than the amount of funding available under Options A or B and therefore budget savings need to be identified in order that a balanced budget can be set. Table 4 below identifies the savings target required and summarises how those targets would be achieved.

TABLE 4 – BUDGET SAVINGS REQUIRED 2015-16

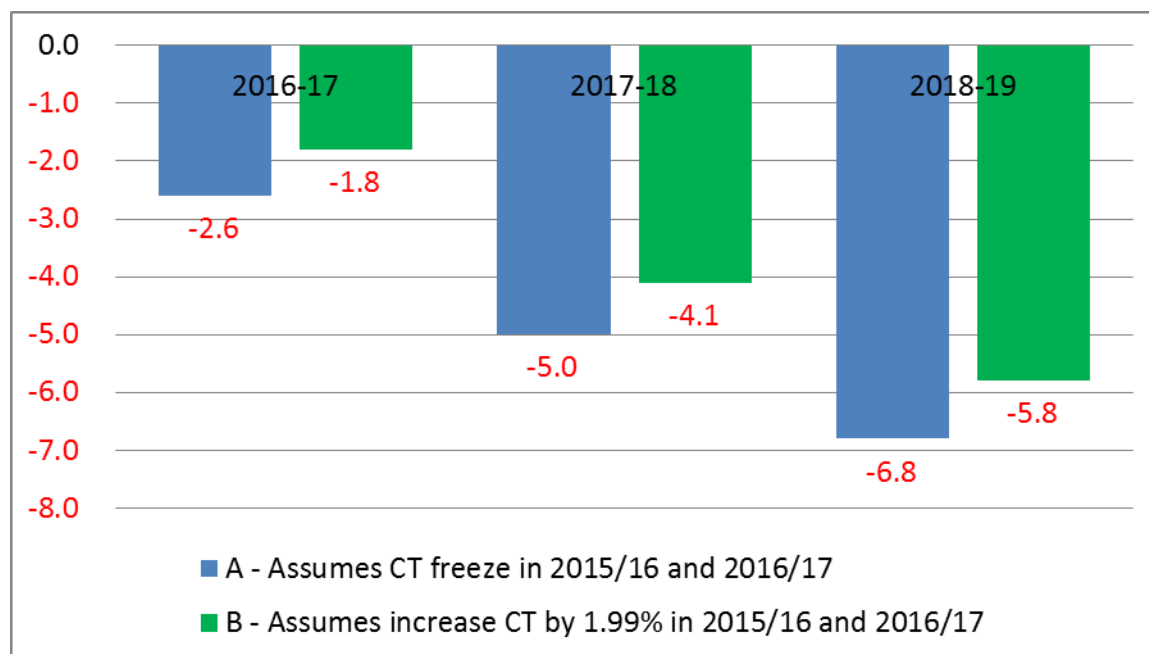
	OPTION A £m
Budget Management Savings – As in previous years the budget setting process has included the requirement for budget managers to scrutinise non-operational budget heads with a view to the identification of recurring savings. This process and challenge by managers has identified £0.547m of recurring savings which can be removed from base budget. In addition managers will be expected to contain their expenditure within existing prices, by removing the inflationary element of non pay expenditure, which will save £0.090m	(0.637)
Retained Pay – Activity anticipated to reduce as a result of changes to the way that community schemes are run on stations: utilising volunteers and advocates.	(0.148)
Corporate Plan Proposals (operational) – The Corporate Plan proposals agreed by the Authority in July 2013 included the deletion of 149 operational posts to deliver £5m of on-going savings once fully implemented. However given that a strategy has been adopted to deliver this level of reduction without resort to compulsory redundancies it will take a number of years for this reduction to be fully achieved. An element of these staff numbers may be used in the transition of future staffing projects	(1.502)
TOTAL BUDGET SAVINGS (£m)	(2.287)

5. MEDIUM TERM FINANCIAL PLAN

- 5.1 As is stated earlier in this report, there is some uncertainty over the direction of travel following the May general election. Looking beyond 2015-16, the Chancellors' Autumn Statement in December 2014 confirmed that the austerity measures to reduce the structural deficit will need to continue until at least 2017-18. This means that the Medium Term Financial Plan (MTFP) needs to be planning for further significant reductions beyond the saving of £2.3m achieved in 2015-16.
- 5.2 Clearly it is difficult to provide forecasts into future years with absolute certainty, particularly in relation to future pay awards, inflationary increases and changes in pension costs. Key assumptions have therefore had to be made in our forecasts which will inevitably be subject to change. Prudent forecasts of future budgets can, however, be used to refresh the Authority's MTFP to inform financial planning and provide updated forecasts of the levels of budget reductions required by 2018-19 to balance the budget.

- 5.3 The MTFP financial modelling tool has assessed a likely 'base case' scenario in terms of savings required over the period 2016-17 to 2018-19. Chart 1 below provides an analysis of those forecast savings required in each year based on assumptions A to B.

CHART 1 – FORECAST BUDGET SAVINGS (CUMULATIVE) 2016 TO 2019 (BASE CASE) - £MILLIONS



- 5.4 Chart 1 illustrates that further savings will be required over the next three years (forecast to be cumulative savings of circa £6.8m by 2018-19). As is stated earlier in this report each 1% increase in council tax results in additional precept of just under £0.4m. Should it be agreed to increase by a further 1% in 2016-17 (not subject to a decision at this meeting) then the saving target by 2018-19 would reduce by £1.0m.

6. PLANS TO DELIVER SAVINGS 2015 TO 2019

Our Plan 2015 onwards

- 6.1 This budget report proposes a balanced budget for the next financial year 2015-16 including proposals as to how budget savings can be achieved.
- 6.2 The Corporate Plan to 2014 was approved by the Authority at its meeting held on the 10 July 2013. The Plan includes a range of proposals which when fully implemented will deliver total on-going savings of £6.8m. It is recognised, however, that this not all of this sum will be deliverable by 2015-16 as the speed at which it can be delivered will be dependent on the natural turnover of staff over the next two years. Savings of £1.5m are targeted to be achieved towards this total in 2015-16.
- 6.3 Officers are currently developing a range of proposals in order to achieve the required savings and meet our Integrated Risk Management Plan objectives. Consideration of proposals for further savings beyond 2015-16 will need to be subject to Authority consideration.

7. **PRECEPT CONSULTATION 2015-16**

7.1 Section 65 of the Local Government Finance Act (1992) requires precepting authorities to consult non-domestic ratepayers on proposals for expenditure.

7.2 In addition to the statutory requirement, members of the public have in previous years also been consulted as it was deemed appropriate to include the public's views on the option of increasing Council Tax at a time of economic difficulty.

7.3 At its meeting on 17 December 2014 the Authority considered the issue of council tax precept consultation and resolved (Minute DSFRA/34 refers):

that consultation on the 2015-16 likely precept and expenditure proposals be on the basis of a telephone survey of the business community and street survey public consultation.

7.4 In line with the Authority decision, arrangements were made for a telephone survey to be undertaken with the business community only. The key specifications for the survey were:

- To ask four key questions on the precept, value for money and satisfaction
- To request demographic information
- To collect answers to both closed and open questions
- To provide a representative sample of 400 businesses by constituent authority area (Devon County Council; Plymouth City Council; Somerset County Council; and Torbay Council).

7.5 The business survey commenced in the week beginning Monday, 5 January 2015 and was undertaken by BMG Research.

7.6 Again in line with the Authority decision, a street level face-to-face survey was undertaken using our own staff. The questions used closely followed the format used for the business telephone survey. To maximise the value of this time, the opportunity was also taken to promote community safety messages and highlight the Service's free home fire safety advisory service. During the planning phase of the street surveys poor weather was forecast which was identified as a risk to response rates. To mitigate this risk the same survey was also made available online and publicised through the Service's social media feeds.

7.7 Face-to-face surveys with members of the public were conducted by Devon & Somerset Fire & Rescue Service staff in Torquay, Plymouth, Taunton and Exeter on 13, 14, 15 and 16 January 2015 respectively. A total of 212 responses were obtained. The online survey was available between 12 and 23 January 2015 and 42 surveys were completed.

7.8 The results obtained from businesses and members of the public have been brought together in the charts below for ease of comparison. The full results of the business and public surveys can be found in Appendix C and D.

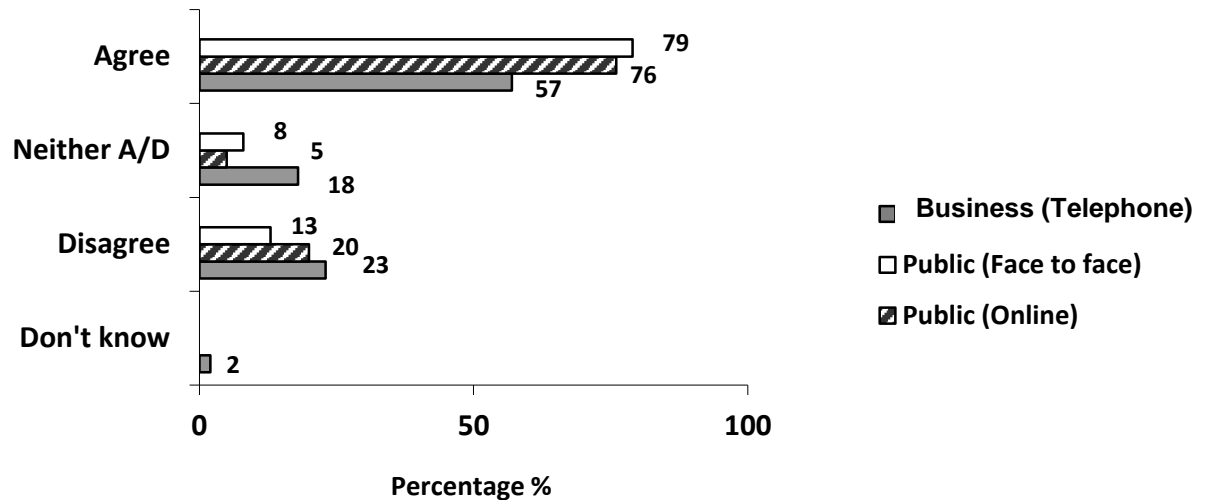
Consultation Results

7.9 Due to rounding the percentages in the graphs may equal 100% + or – 1%.

Question 1: How strongly do you agree or disagree that it is reasonable for the Authority to consider increasing its council tax charge for 2015/16 to lessen the impact of the funding cuts?

7.10 The results for Question one, shown in Chart 1, illustrate that the majority of business respondents agreed that it would be reasonable for the Authority to consider increasing the precept to lessen the impact of funding cuts, despite Government’s suggestion that local authorities do not increase council tax charges for 2015/16. A similar distribution of agree and disagree responses was achieved from members of the public, though, overall, they were more in favour of the idea, and less neutral, than business respondents.

Chart 1: Question 1 results of agreement to consider increasing the precept



Count (unweighted) Business responses 400, Public responses street 211, Public responses online 41.

7.11 The 2015 results of the business survey show a slight increase in the level agreement for the Authority to consider an increase to the precept: up from 53% to 57%. The majority of this change reflects movement in opinion from ‘disagree’ to ‘agree’. Results for the public street survey were broadly similar to the previous year, though, as with the business results, a 5% increase (74% to 79%) in agreement was seen over the 2014 results. The increases in agreement and also the ‘Neither agree nor disagree’ response mirrored similar decreases in ‘Disagree’ and ‘Don’t know’ responses.

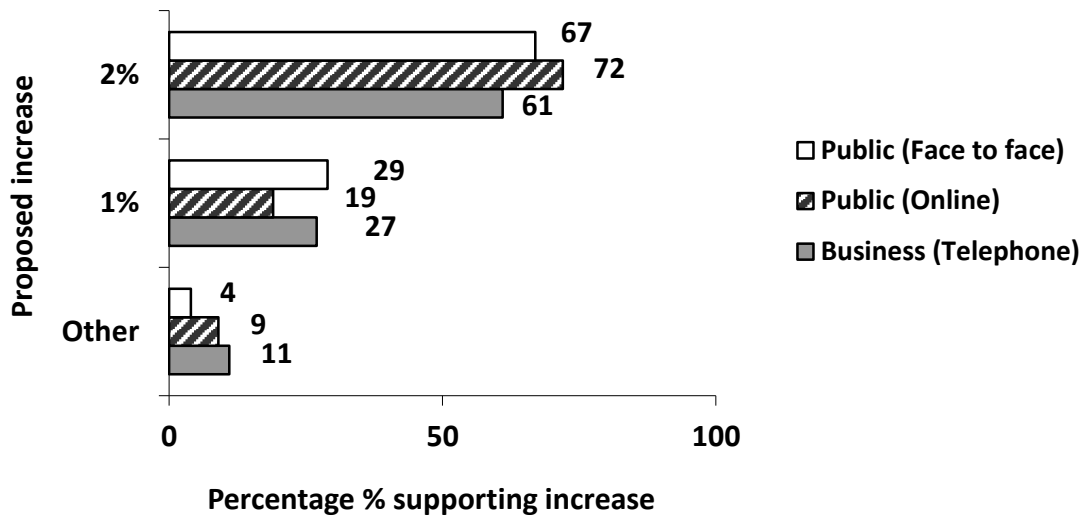
7.12 These results suggest support from businesses and members of the public for the Authority to consider increasing the precept to minimise the impact of cuts to the government grant.

7.13 Respondents who agreed that the Authority should consider increasing the precept were asked:

Question 2: Of the following options, what increase would you consider it reasonable for the Authority to make to its element of the Council Tax?

7.14 The majority of business respondents (61%) were in favour of a 2% increase to the precept as seen in Chart 2 overleaf. Similar results were returned from members of the public, and those responding online were also more in favour of a 2% increase than a 1% increase.

Chart 2: Question 2 results of options to increase the precept



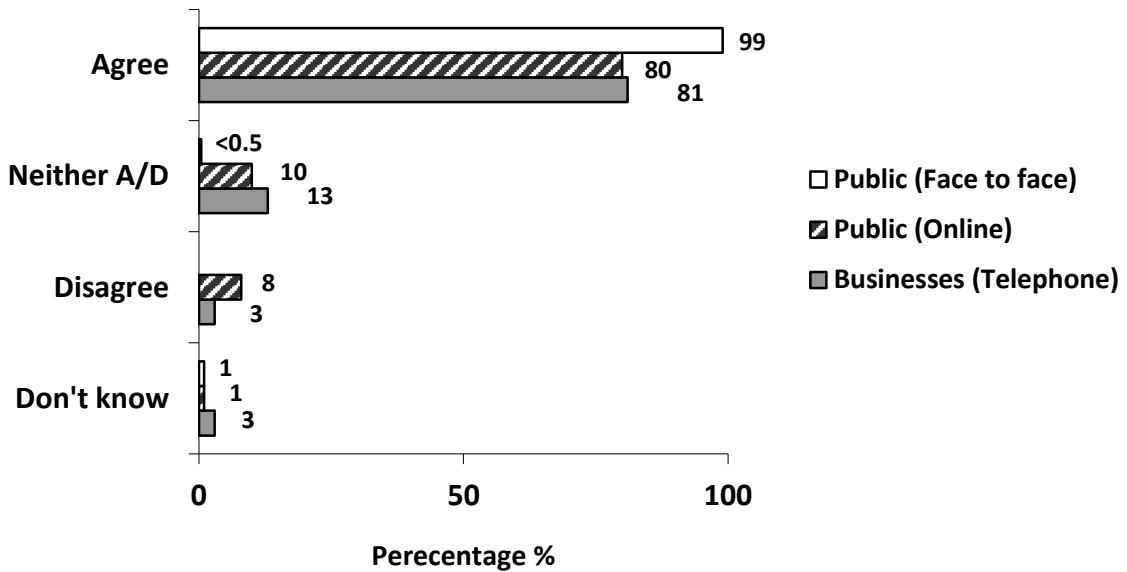
Count (unweighted) Business responses 232, Public responses street 175, Public responses online 32.

- 7.15 Of those business respondents who indicated an increase other than 2%, the majority suggested an increase greater than 2% (20) respondents, with figures ranging from 2.5% up to 10%. The most common suggestion was an increase of 5% (11 respondents).
- 7.16 No members of the public giving an 'Other' increase suggested less than 2%. Responses ranged from 3% (1 respondent) to 10% (1 respondent), though 5% was most common (6 respondents). One respondent suggested that the level should be increased 'As necessary'. For members of the public, the responses from the street survey show very little movement from the responses returned in 2014.

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

- 7.17 A high percentage of businesses agreed that the Service provides value for money (see Chart 3 overleaf). The results to this question showed no change in the level of agreement from the 2014 survey results. For members of the public, 208 of the 211 responding to a face to face survey agreed that the Service provides value for money: nobody responded 'Disagree'. The responses to the online survey were similar to the business survey results, though slightly more respondents answered 'Disagree' than 'Neither agree nor disagree'. In comparison with the 2014 results, the level of agreement from the public street survey results shows a slight increase (6%) in those responding 'Agree'.

Chart 3: Question 3 results of agreement with providing value for money



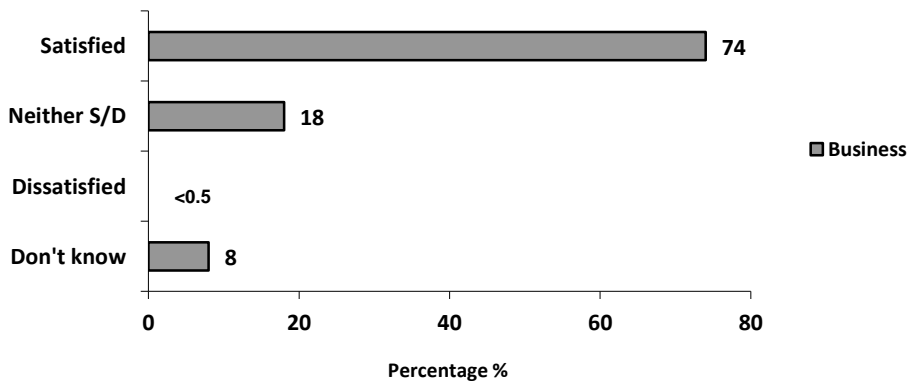
Count (unweighted) Business responses 400, Public responses street 211, Public responses online 40.

Question 4: How satisfied or dissatisfied are you with the service provided by Devon and Somerset Fire and Rescue Service?

7.18

Chart 4 shows that the majority of respondents were satisfied with the service provided by the Service. A slight decrease in satisfaction is observed in the results when compared to the 2014 survey: 74% compared to 78% satisfaction. Only one respondent expressed dissatisfaction but provided no explanation as to the reason. This question was not put to members of the public who were instead asked about the principles underlying the priorities included in the Service’s draft plan for 2015 to 2020.

Chart 4: Question 4 results of satisfaction with Service.



Count (unweighted) Business responses 400.

Consultation Conclusion

7.19

The results of the consultation indicate that businesses and members of the public feel it would be reasonable for the Authority to consider increasing its precept for 2015/16. Those who agreed that it would be reasonable to consider an increase in the Council Tax precept were predominantly in favour of a 2% increase (61% of business respondents and 67% of public respondents from the street survey).

- 7.20 A large majority of business respondents to the telephone survey believed that the Service provides value for money, at around £46 per head of the population per year, and were satisfied by the service provided by Devon and Somerset. Members of the public agreed that the Service provided value for money (99% face to face, 80% online).
- 7.21 There were small differences observed in opinion between the results of the face to face survey and the online survey in Questions 1 and 2; the difference was greater in the results to Question 3.

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

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

9. SUMMARY

- 9.1 The Authority is required to set its level of revenue budget and council tax for 2015-16 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. This report provides the necessary background information to assist in making decisions as to the appropriate levels for this Authority.
- 9.2 The Resources Committee, at its meeting held on the 10 February 2015, considered the implications of each of the two options contained within this report and subsequently resolved to recommend Option B (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/15/1

DRAFT REVENUE BUDGET REQUIREMENT 2015-16 (BASED UPON OPTION A FOR ILLUSTRATIVE PURPOSES)

	2015/2016		
	£'000	£000	%
Approved Budget 2014-15		75,794	
<u>Provision for pay and prices increase</u>			
1 Uniformed Pay Award (assume 1.0% from July 2015)	440		
2 Non-uniformed Pay Award (2.2% from January 2015)	115		
3 Prices increases (assumed 1.2% CPI from April 2015)	126		
4 Pensions inflationary increase (1.2% from April 2015)	27		
		708	0.9%
<u>Removal One-off Provisions for 2014/15 only</u>			
5 Change and Improvement Programme	-274		
6 Revenue Contribution to Capital	-1,814		
7 PPE refresh programme	-560		
		-2,648	
<u>Inescapable Commitments</u>			
8 Pay increments and other pay changes	99		
9 Pension costs due to Ill Health and Injury on duty in 2015/16	649		
10 Other ongoing commitments	58		
		806	
<u>New Investment</u>			
11 Community Safety Pilot Scheme	71		
12 Revenue Support for Capital borrowing	1,737		
13 Business Rates Safety Net	148		
		1,956	
<u>Savings in 2015-16</u>			
14 Implementation of staffing reductions linked to changes agreed 2014	-1,502		
15 Reduction in Retained activity levels	-148		
16 Savings as a result of budget review	-547		
17 Savings due to removal of price rise allowance for 15/16	-90		
		-2,287	
CORE BUDGET PROPOSAL		74,329	

**APPENDIX B TO REPORT
DSFRA/15/1**

Lee Howell QFSM FIFireE
CHIEF FIRE OFFICER

Shafi Khan
Communities and Local Government
2 Marsham Street
LONDON SW1P 4DF

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

Cc: Minster for Fire & Resilience
Members of Parliament (DSFRA area)

Your ref :
Our ref :
Website www.dsfire.gov.uk

Date : 15th January 2015
Please ask for : Mr Woodward
Email : kwoodward@dsfire.gov.uk

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

Dear Shafi,

CONSULTATION – PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2015-16

I am writing to you on behalf of Devon and Somerset Fire and Rescue Authority (the Authority) in response to the above consultation.

I provide responses to the specific questions included in the document but also take the opportunity to raise a number of general comments below, some of which I have raised on previous occasions but disappointingly not had any feedback at all from your department.

- The Authority is very concerned as to the disproportionate impact that the cuts are having on the more rural fire and rescue services which rely heavily on the Retained Duty System (RDS) to provide fire and rescue cover over a large geographical area. In his independent report *FACING THE FUTURE: Findings from the review of efficiencies and operations in fire and rescue authorities in England*, Sir Ken Knight found that there were efficiencies to be released by increasing the proportion of retained (or 'on call') fire fighters. Given that 87% of the Authority's stations are already crewed by on call firefighters we have limited scope to make further significant savings in this area. Clearly if other fire authorities were to increase the use of 'on call' firefighters (some fire authorities do not have any 'on call' staff), the savings outlined by Sir Ken Knight would be generated. Applying a flat rate cut across the board, without considering the ability to make further cuts on an individual fire authority basis may be easier to administrate at a national level but its effects of this on the ground are disproportionate, dysfunctional and unfair. Rewarding and recognising the achievements of those who are making significant efficiencies (including replacing whole time crews in urban areas) is an area we would urge Government to consider further.
- The Authority is concerned that local government as a whole is again to suffer a disproportionate contribution to the deficit reduction programme compared to other public sector groups. The further reductions included in the 2015-16 settlement means total real terms reductions of 40% since 2010. This is not sustainable.

- The Authority is disappointed that the government continues to use headline figures relating to Spending Power, i.e. 1.8% reduction in 2015-16, which is very misleading as it includes a number of adjustments (e.g. Better Care Funding, council tax and ring fenced funding) and only serves to mask the true extent of cuts to be made to local authority budgets. Your own consultation document repeatedly refers to a 10% reduction in Local Government Department Expenditure Limit (DEL), and is the figure that local government is using to communicate with stakeholders.
- The Authority is also disappointed that whilst the findings of the newly commissioned report by LG Futures “Research into Drivers of Service Costs in Rural Areas” recognise that there is a positive relationship between sparsity and unit costs, it is not considered statistically significant to merit recognition in the formula settlement. Whilst we welcome the fact that additional funding has been allocated to the most rural local authorities, an allocation of just £81k for the Authority is very disappointing and does very little to redress the inequitable distribution in favour of the more urban areas. The Authority does not feel as though the rural arguments are being taken seriously enough.
- The Authority supports the All Party Parliamentary Group which is asking for the 50% gap in grant funding between urban and rural areas to be reduced in stages to 40% by the year 2020.
- The Authority is also disappointed that there has been no change in the council tax referendum rules to apply a different approach to fire and rescue authorities. We have asked that rather than a percentage limit that a cash sum, e.g. £5, be applied. The fact remains that because of the relatively low Band D council tax figures for a fire authority, typically only 4% of the total council tax bill for any area, the cost of holding the referendum would be totally disproportionate to the additional amount of precept that could possibly be achieved, meaning that no fire authority could possibly justify such an action. For the Authority, which has 15 billing authorities across Devon and Somerset, the cost of just holding the referendum has been estimated at £2.3m (equivalent to a 5.5% increase in council tax).

Responses to Questions

We provide below our responses to the specific questions raised in the consultation document.

Question 1: Do you agree with the Government’s proposal that local welfare provision funding of £129.6m should be identified within the settlement by creating a new element distributed in line with local welfare provision funding in 2014-15?

Response – Yes, whilst not an issue which impacts on fire and rescue authority settlement figures, there would appear be to a case to maintain transparency as to the level of government support in this area.

Question 2: Do you agree with the Government’s proposal that the funding for the Improvement and Development Agency for Local Government for services to local government should be £23.4 million in 2015-16?

Response – Again whilst not an issue that impacts on fire and rescue settlements we would have no objection to this technical change.

Question 3: Do you agree with the Government’s proposal to reduce the New Homes Bonus holdback from £1bn to £950m?

Response – Yes.

Question 4: Do you agree with the Government's proposal that the rural funding element should be increased from £11.5m as previously proposed, to £15.5m?

As a beneficiary of this funding (£81k) we obviously welcome the proposal for it to continue and be increased in 2015-16. However it has to be said that a national allocation of £15.5m does very little to redress, what we see, as the inequitable distribution of funding which sees the most urban areas having 50% more grant funding per head than rural areas.

We remain very concerned of the disproportionate impact that the approach of funding reductions is having on the most rural fire authorities and support the All Party Parliamentary Group which is seeking the 50% gap to be reduced in stages to 40% by the year 2020.

Question 5: Do you agree with the Government's proposal to reduce the fire funding element of Revenue Support Grant for each fire and rescue authority, by an amount equal to 0.24% of the total pensionable pay for that authority?

Response – No. This proposal would appear to be a short term fix to a cash flow issue rather than in the interests of the longer term funding of the firefighter pension schemes, and therefore differs from previous government policy on pension funding. If this proposal is to be applied then we would want assurance that in the reverse situation when employer rates increase that additional grant money will be put into the fire settlement.

Question 6: Do you agree with the Government's proposal to compensate local authorities for the cap on the multiplier in 2015-16, calculated on the same basis as in 2014-15?

Response – Whilst we welcome the fact that authorities are to be compensated for the loss of retained business income we do not agree with the continuation of payment through Section 31 grants which leads to adjustments to overall funding outside of the normal budget setting process. We would like to see an approach which incorporates retrospective adjustments into annual settlement figures so as authorities are able to consider these adjustments at the time of setting annual budgets. A similar approach is already in place relating to variations on council tax collection funds.

Question 7: Do you have any comments on the impact of the 2014-15 settlement on protected groups, as set out in the draft Equality Statement?

Response – Yes. As we have already stated in our response to Q4 we not believe that the amount of additional funding to rural areas goes anywhere near far enough to protect the most rural areas from the impact of the funding reductions. In addition, we do not agree with the strong protections provided to those groups more dependent on grant funding, which is not provided from new money but is provided at the expense of a different group i.e. those authorities less dependent on grant funding.

Yours sincerely

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 2015-16 BUDGET

The net revenue budget requirement for 2015-16 has been assessed as £74.329m (Option A). 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 2016, 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 2015-16 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO VOLATILE CHANGES

Budget Head	Budget Provision 2015-16 £m	RISK AND IMPACT	MITIGATION
Retained Pay Costs	12.4	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 2015-16, allowance has been made for a potential overspend on this budget.
		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 £2.1m 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. It is anticipated that further information on the full impact of this liability will become known throughout 2015-16 as members join the modified pension scheme.
Fire-fighter' s Pensions	2.9	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 2015-16 an allowance has been made for a potential overspend on this budget
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 2015-16 an allowance has been made for a potential overspend on this budget
Fuel Costs	0.8	Whilst the budget has made some allowance for further increases in fuel costs during 2015-16, due to current low fuel costs it is highly possible that inflationary increases could be in excess of the budget provided.	In establishing a General Reserve for 2015-16 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 2015-16 has been set at a prudent level of achieving only a 0.4% 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	-1	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £1.0m of external income whilst reducing the reliance on the Service budget for Red One Income to £0.2m. Due to economic uncertainty this budget line may be at risk.	Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Capital Programme	9.5	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.
Business Rates Reserve	0.4	There is a high degree of uncertainty over levels of Retained Business rates and the method of allocation between funding and revenue grants, the additional funds from Business rates in 2015/16 have been budgeted as a reserve item. For prudence, the increase has not included in projections for future years.	The reserve can be utilised to smooth fluctuations in Business Rates retentions in 2015-16 and future years.

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 2015-16 to 2018-19. 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.

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 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.

Total Reserve balances for the Authority as at April 2014 is £17.3m made up of Earmarked Reserves (committed) of £12.1, and General Reserve (uncommitted) of £5.2m. . This will increase by the end of the financial year as a result of projected underspend against the current year's budget. A General Reserve balance of £5.2m is equivalent to 6.9% of the total revenue budget, or 25 days of Authority spending.

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 6.9% compares to an average reserve balance of 9.0% for all fire and rescue authorities, which places this Authority in the lower quartile 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 period of austerity.

CONCLUSION

It is considered that the budget proposed for 2015-16 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