



DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	RC/09/1
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	4 FEBRUARY 2009
SUBJECT OF REPORT	2009/2010 REVENUE BUDGET AND COUNCIL TAX LEVEL
LEAD OFFICER	Treasurer and Chief Fire Officer
RECOMMENDATIONS	<i>That the Committee considers each of the four options of revenue budget and council tax levels for 2009/2010, included in this report as Options A to D, with a view to making an appropriate recommendation to the Budget meeting of the full Fire and Rescue Authority on the 16 February 2009 on the revenue budget and associated Council Tax level to be approved for 2009/10</i>
EXECUTIVE SUMMARY	It is a legislative requirement that the Authority sets a level of revenue budget and council tax by the 1 March each year. These levels will be set at the budget meeting of the Authority on 16 February 2009. This report provides the Committee with four options for consideration, along with the necessary financial background. The Committee is invited to make a recommendation to the full Authority budget meeting on 16 February 2009 on the preferred option.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	No potentially negative impact sufficient enough to warrant a full impact assessment has been identified in the content of this report.
APPENDICES	<ul style="list-style-type: none"> A. Letter sent to CLG in response to the provisional Local Government Finance Settlement 2009/2010. B. The profile of the Devon & Somerset Fire & Rescue Service compared to other English fire and rescue services. C. Draft Revenue Commitment Budget 2009/2010. D. Report on Precept Consultation for 2009/10 Budget
LIST OF BACKGROUND PAPERS	Nil.

1. INTRODUCTION

- 1.1 It is a legislative requirement that the Authority sets a level of revenue budget and council tax for the forthcoming financial year, before 1 March, in order that it can inform each of the 15 council tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2009/2010. The purpose of this report is to provide Members with the necessary financial background, in order that consideration can be given as to what would be appropriate levels for this authority. The report includes four options of potential levels and invites the Committee to recommend to the budget meeting of the full Authority on the 16 February 2009 which of these levels is the preferred option.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT

- 2.1 The provisional Local Government Finance Settlement for 2009/2010 was announced on the 26 November 2008. This announcement only served to confirm that the indicative figure for 2009/2010, announced in December 2007 as part of the three-year grant settlement covering the years 2008/2009 to 2010/2011, would not be changed. It was also stated that there were no current proposals for the indicative figures for year three i.e. 2010/2011 to be changed.
- 2.2 This announcement was only provisional as it was subject to the normal consultation period which ended on 7 January 2009. During the consultation period every local authority had an opportunity to challenge individual grant allocations. The Devon and Somerset Fire and Rescue Authority (DSFRA) response submitted to the Department of Communities and Local Government (CLG) is attached as Appendix A. This response, amongst other things, challenged the methodology used to distribute Fire Formula Grant which the Service believes does not reflect the disproportionate costs of providing a fire and rescue service in a sparse rural area such as Devon and Somerset. Appendix B provides graphical illustrations of how the sparsity issue impacts on this Authority more than most other fire and rescue authorities and the consequent impact on resources required.
- 2.3 The final grant settlement figures were announced on 21 January 2009. These final figures, disappointingly, made no changes to the provisional figures. The Minister was not sufficiently convinced by any of the arguments and made no changes on the basis that no exceptional circumstances had been identified from the consultation process. The grant allocations included in that announcement relating to Devon and Somerset FRA are shown in Table 1 below

TABLE 1 – FINAL GRANT SETTLEMENT FIGURES	£m	%
Formula Grant 2009/2010	30.529	
Increase over 2008/2009 Grant	615	2.1%
Formula Grant 2010/2011	31.245	
Increase over 2009/2010 Grant	716	2.3%

- 2.4 A grant allocation of £30.529m for 2009/2010 represents an increase of 2.1% over the 2008/2009 figure. This compares with an average increase for all fire and rescue authorities of 1.85%, ranging from 0.5% to 4.86%.

Comprehensive Spending Review 2007 (CSR 2007)

- 2.5 Prior to the grant settlement announcement the government had published its latest Spending Review (CSR 2007). This included the following headline figures for public spending for the next three years:

- that provision has been made for increases in spending at an average of 1% per year in real terms over the next three years;
- that these increases are underpinned by an ambitious value for money programme that will see local government deliver cash releasing savings of 3% per year; and
- that the settlement will enable local authorities to keep council tax rises low with the Government expecting the overall increase to be well under 5% in each of the next three years.

Capping

- 2.6 As has been the case in previous years, the government has not announced the criteria to be used in determining whether budget and council tax increases for 2009/10 are excessive. The provisional grant settlement has re-emphasised the statement made in CSR 2007, that:-

“For 2009/2010 Government expects the overall increase to be significantly below 5%”

- 2.7 It has also been re-emphasised that it should not be assumed that the principles applied in 2008/2009 will be repeated in 2009/2010. In 2008/2009 no local authorities or fire and rescue authorities were capped although three police authorities were, having breached both of the capping principles applied namely:

- that the increase in revenue budget should not exceed 5%; and
- that the increase in council tax should also not exceed 5%.

The Devon and Somerset Fire and Rescue Authority did not breach either of these tests and was not therefore considered for capping.

3. DRAFT COMMITMENT REVENUE BUDGET 2008/2009

- 3.1 A draft revenue budget commitment requirement for 2009/2010 has been assessed as £73.039m (a 3.9% increase on the approved 2008/09 budget). A summary of the make up of this budget requirement is provided in Table 2 overleaf. The detailed items included in this draft budget are included in Appendix C.

- 3.2 It should be noted that this figure is a revision to an original assessment of £73.511m as a consequence of the following reductions.

- The removal of two inescapable spending pressures (totalling £0.386m) relating to the replacement of alerter transmitter systems on fire stations (£0.206m) and the decommissioning costs associated with existing radio systems following the implementation of the national radio system Firelink (£0.175m). This Committee at its meeting on 8 December 2008 resolved that these two spending items would be funded from the current year underspend (Minute *RC/14 refers).

- A reduction in the provision for pay awards during 2009 of £0.086m by reducing pay award assumptions from 2.5% to 2.3%. This reduction does provide some risk to the budget should the pay award be settled at a higher level which, as a national agreement, this Authority would be bound to honour. Financial provision will be made within the General Reserve to mitigate against this risk.

<u>TABLE 2 – SUMMARY OF REVISED DRAFT REVENUE COMMITMENT BUDGET 2009/2010</u>	£m	%
Approved Net Revenue Budget Requirement 2008/2009	70.302	
PLUS Provision for pay and price increases (items 1 to 4 included in Appendix C to this report)	1.833	2.6%
PLUS Inescapable Commitments (items 5 to 21 included in Appendix C to this report)	0.992	1.4%
MINUS Efficiency Savings (items 22 to 28 included in Appendix C to this report)	(0.673)	(0.9)%
PLUS Essential Spending Needs (items 29 to 37 included in Appendix C to this report)	0.585	0.8%
DRAFT REVENUE COMMITMENT BUDGET 2009/2010	73.039	3.9%
INCREASE IN COUNCIL TAX OVER 2008/09		4.9%

3.3 The Committee is particularly asked to note that, in formulating the commitment budget as set out in the table above, account has already been taken of £0.673m of identified efficiency savings to be delivered during 2009/10. These efficiency savings feature reductions in support areas. Details of each of the efficiency savings are set out in Appendix C to this report.

3.4 Based on the issues included in the 2009/2010 draft revenue commitment an assessment has been made with regard to indicative core budget proposals for the following two years, 2010/2011 and 2011/2012. This will enable the Medium Term Financial Plan (MTFP) for the Authority to include projections of budgets and council tax levels for a three-year time span. The indicative budget figures for 2010/2011 and 2011/2012 have been assessed as £75.5m and £77.5m respectively. It should be emphasised, however, that these assessments are based upon known commitments only. The assessments do not include the impact of other spending pressures known to be on the horizon and which are difficult to quantify at this stage e.g. increases in pension costs and costs associated with the implementation of the Regional Control Centre and Firelink. These issues are further explored in Section 7 of this report when considering the impact in future years of each of the budget options.

4. MEDIUM TERM FINANCIAL PLAN (MTFP) 2009/2010 TO 2011/2012

4.1 A summary of the implications to the MTFP of funding the draft revenue commitment budget proposal is shown in Table 3 overleaf.

TABLE 3 – EXTRACT FROM MEDIUM TERM FINANCIAL PLAN						
	2009/10		2010/11		2011/12	
	£m	%	£m	%	£m	%
Previous year Revenue Budget	70.302		73.039		75.471	
Draft Revenue Commitment Budget	73.039		75.471		77.497	
Increase over previous year	2.737	3.9%	2.432	3.3%	2,026	2.7%
Previous year Band 'D' Council Tax	£66.58		£69.81		£72.51	
Band 'D' Council Tax based upon commitment budget	£69.81		£72.51		£75.14	
Increase in Band 'D' Council Tax over previous year	£3.23	4.9%	£2.70	3.9%	£2.63	3.6%

4.2 The figures in Table 3 illustrate that to set a revenue budget for 2009/2010 at £73.039m (a 3.9% increase on the 2008/09 approved budget) would require the Council Tax for a Band 'D' property for 2009/2010 to be set at £69.81 (an increase of 4.9% over the 2008/2009 level).

4.3 The percentage increase in revenue budget differs from the percentage increase in council tax level because of the gearing effect. This means that, as the level of government grant is fixed (see Section 2, Table 1 above), any increase in overall revenue budget over and above the grant increase can only be met by a proportionately higher increase in council tax level.

5. PRECEPT CONSULTATION 2009-10

5.1 Section 65 of the Local Government Finance Act 1992 requires precepting authorities to consult non-domestic ratepayers on its proposals for expenditure. The Act requires consultation in each financial year to be completed before the first precept is issued by the authority for that financial year. For the non-domestic ratepayer consultation on the expenditure proposals for 2009/2010 it was decided to adopt the telephone survey approach previously used in 2007/08 and 2008/09.

5.2 The main findings from the survey, undertaken between 7 and 16 January 2009, revealed that the majority - 68% (239) - of respondents felt that an increase to £69.81 for a Band 'D' property represented value for money whilst 32% (114) did not consider it value for money. This represents a decline in the number of people who considered the proposed level of council tax to be value for money in comparison to the survey undertaken in previous years - see Table 4 overleaf.

Table 4: Question 1 Do you consider '£69.81' to be value for money? - Comparison between results in 2007/08, 2008/09 and 2009/10

Response	2007/08 Proposed Council Tax £63.45	2008/09 Proposed Council Tax £66.58	2009/10 Proposed Council Tax £69.81
Yes	79%	75%	68%
No	21%	25%	32%
Total	100%	100%	100%

5.3 Of the 68% (239) of respondents who agreed £69.81 was value for money, 93% indicated that they would be prepared to pay £1 more a year to enable the Devon Fire and Rescue Service (DSFRS) to improve community safety. This equates to 52% of all respondents who were surveyed. Of the 32% (114) who disagreed that £69.81 was value for money:

- 64% (73) indicated that they would not find any increase on last years figure of £66.58 to be reasonable; and
- 36% (41) indicated that an increase of between 2.5% and 4.5% would be reasonable.

5.4 Appendix D to this report is a briefing note providing details of the methodology and sample sizes used for the consultation together with a summary of the results.

6. RESERVES AND BALANCES

6.1 In setting the revenue budget and council tax for 2009/2010, the Authority will also need to consider an appropriate level of financial reserves to be held to provide a financial contingency against any unforeseen expenditure that may arise during the course of 2009/2010. In making this assessment the Treasurer, as the Proper Officer for the purposes of Section 112 of the Local Government Finance Act 1988 (the equivalent provision, for combined fire and rescue authorities, of Section 151 of the Local Government Act 1972), has a duty to advise the Authority on his view as to the robustness of the budget and level of reserves recommended. This report will need to be considered at the budget meeting alongside decisions on the levels of budget and council tax.

6.2 At this time, the level of General Reserve is £4.291m, equivalent to 6.1% of the revenue budget. Elsewhere on the agenda for this meeting is a report monitoring the current year's revenue budget (RC/09/3). This indicates a projected underspend of £0.665m. If this underspend were to be transferred to the General Reserve then this would result in a balance, as at 1 April 2009, in the region of £5m (equivalent to 6.9% of the revenue budget).

6.3 In terms of a strategy for Reserve balances, the Authority at its budget meeting last year resolved to adopt 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 (Minute DSFRA/80 refers). 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.

- 6.4 It is, of course, pleasing that the Authority has not experienced the need to call on reserve balances in the last two years to fund emergency spending. This has enabled the balance, through budget underspends, to be increased to a level in excess of 5%. Given the current economic climate and the increased risk to the Service budget from the impact of the economic downturn, it is my view that the Authority should seek to protect reserve balances, as much as possible, to provide added financial stability through the downturn period. The deterioration of the banking system and the potential loss of local authority investments from the Icelandic banks provide a stark reminder of why reserve balances are needed. While this Authority is 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.
- 6.5 It should also be emphasised that – even with a reserve balance equivalent to 6.9% - this Authority would still be placed in the lower quartile when compared to all fire and rescue authorities. The average reserve balance is 13.5% of revenue budget, with the Upper Quartile being 15.0% and Lower Quartile 8.0%. Consequently, even at 6.9% this Authority's reserve level would still be the fourth lowest of all combined fire and rescue authorities in the country, positioning this Authority at 29 out of 33.

7. OPTIONS FOR SETTING THE 2009/2010 REVENUE BUDGET

- 7.1 As is reported in paragraph 4.2 of this report, to set a revenue budget at £73.039m (a 3.9% increase on the approved 2008/09 budget) would require the level of council tax for a Band D property to be set at £69.81 (a £3.23 – 4.9% - increase over 2008/2009 level). While at this level it is considered unlikely that the Authority would be subject to capping it is likely to represent the highest percentage increase of all fire and rescue authorities in the country. As such it is recommended that the Authority should not consider any increase in council tax in excess of 4.5%.
- 7.2 To set a revenue budget of £72.899m (an increase of £2.597m – 3.7% - over the approved 2008/09 budget) would require the level of council tax for a Band D property to be set at £69.58 (a £3.00 - 4.5% - increase over 2008/2009 level). To achieve this, however, would require the draft revenue commitment budget to be reduced by an amount of £0.140m.
- 7.3 While it is considered that setting at this level would not subject the Authority to capping principles, the Authority should still seek to balance the extent to which it can afford to set the council tax at a lower level while still providing sufficient funding for the Service to maintain, and improve upon, its delivery of emergency services to the community it serves. Table 5 overleaf provides a summary of the financial implications of setting a level of council tax level at three other levels below 4.5%, i.e. 3.9%, 3.5% and 3.0%.
- 7.4 In terms of comparisons with other local authorities and in particular other fire and rescue authorities, whilst no levels of council tax for 2009/2010 have actually been set at this time, a recent survey carried out by the Local Government Association suggests that the average increase to council tax bills will be 3.5%. It should be remembered that this is an average figure which - by definition - means that there will be a range of increases some of which will be less, and some more, than 3.5%. In terms of fire and rescue authorities current indications are that the average increase will be higher than this figure at 3.85%.

7.5

It is typical for fire and rescue authorities to be more than the average of all local authorities, primarily as the element of the total council tax bill that relates to a fire and rescue authority is relatively small and therefore the impact to the 'bottom line' council tax bill is far less. For example, the 2008/2009 council tax figure for this Authority of £66.58 represented, on average, 4.8% of the total council tax bill. An increase in 2009/10, therefore, to £69.58 (Option A) would only increase the bottom line council tax figure by £3.00 - equivalent to an increase to the total council tax figure for each of the 15 billing authorities within the two counties of approximately 0.2%. In fact, the difference in council tax between options A and D included in this report is only 99 pence per annum, i.e. £3.00 for Option A reducing to £2.01 for Option D. For the Service, however, this 99pence reduction equates to a permanent budget reduction of £0.600m.

TABLE 5 – SUMMARY OF COUNCIL TAX OPTIONS

Option	Council Tax increase %	Council Tax for a Band D Property £ p	Increase over 2008/2009 £ p	Reduction required in 2009/2010 draft Revenue Budget £m
A	4.5%	£69.58	£3.00	(0.140)
B	3.9%	£69.18	£2.60	(0.380)
C	3.5%	£68.92	£2.34	(0.540)
D	3.0%	£68.59	£2.01	(0.740)

7.6

The implications of setting the council tax at each of these four levels are outlined in the following paragraphs which also feature:

- proposals for budget reductions for each option;
- a risk assessment for each of those reductions, and
- a forecast of the impact to budget setting for the following two financial years; 2010/2011 and 2011/2012.

OPTION A - REVENUE BUDGET INCREASE OF 3.7% (COUNCIL TAX INCREASE OF 4.5%)

		Increase over 2008/2009	%
Revenue Budget Requirement	£72.899m	£2.597m	3.7%
Council Tax – Band D	£69.58	£3.00	4.5%

7.7

To fund these levels would require a reduction to the draft commitment budget of £0.140m. If this is the chosen option then it is proposed that this level of reduction would be achieved by:

	£m
Reduction in the provision for price increases by revising the assumed increase in the RPI from 3.0% to 1.0%.	(0.140)
TOTAL REDUCTIONS	(0.140)

Risk Assessment

- 7.8 A reduction to the provision for price increases will provide some risk to the Service budget should price increases during 2009/2010 exceed provision e.g. if fuel increases rise again to the extent that they did during 2008. Should this prove to be the case then the additional costs would need to be absorbed from within the overall budget and provision made within the level of General Reserve for variations in prices increases above budget provision.

Impact to 2010/2011 and beyond

- 7.9 Based on Option A the MTFP assesses that the revenue budget requirement for 2010/2011 and 2011/2012 would be £75.3m and £77.3m respectively. To fund these levels of budget, it is estimated that council tax would need to be increased by 3.9% for 2010/2011, and 3.6% for 2011/2012.

OPTION B – INCREASE IN REVENUE BUDGET OF 3.4% (COUNCIL TAX INCREASE OF 3.9%)

		Increase over 2008/2009	%
Revenue Budget Requirement	£72.659m	£2.357m	3.4%
Council Tax – Band D	£69.18	£2.60	3.9%

- 7.10 To fund these levels would require a reduction to the draft commitment budget of £0.380m. If this is the chosen option then it is proposed that this level of reduction would be achieved by:

	£m
Reduction in the provision for price increases by revising the assumed increase in the RPI from 3.0% to 1.0%.	(0.140)
Revision to list Essential Spending Pressures	
<ul style="list-style-type: none"> • Removal of provision for a new post of Policy Support Officer. 	(0.052)
<ul style="list-style-type: none"> • Removal of provision for additional community fire safety hours for retained staff to support Group Plans. 	(0.165)
<ul style="list-style-type: none"> • Reduce the provision for the implementation of an electronic Documents Management system by deferring implementation so as spending is over two years. 	(0.023)
TOTAL REDUCTIONS	(0.380)

Risk Assessment

7.11 The reduction in the provision for price increases by £0.140m is identified in paragraph 7.7. In relation to the revision to the list of Essential Spending Pressures, the Service will seek to fund the investment in group plans for additional community fire safety (CFS) activities from targeted savings against retained pay costs from driving down activity levels. The extent to which this can be achieved will be compromised, however, should the Service experience an upturn in activity levels during 2009/2010 (for example, as a result of spate weather conditions; the impact of the economic downturn; or increases in incidents of arson and other anti-social behaviour).

7.12 The post of Policy Support Officer is currently filled on a temporary basis funded from vacancy savings across the whole-time pay budget. It should be noted that in setting the draft budget for 2009/2010, an amount of £0.250m has already been included as a vacancy margin saving. To defer the implementation of the electronic documents management system will result in a delay in the delivery of efficiency savings from this initiative.

Impact to 2010/2011 and beyond

7.13 Based on Option B the MTFP assesses that the revenue budget requirement for 2010/2011 and 2011/2012 would be £75.1m and £77.1m respectively. To fund these levels of budget, it is estimated that council tax would need to be increased by 3.9% for 2010/2011, and 3.6% for 2011/2012.

OPTION C – REVENUE BUDGET INCREASE OF 3.1% (COUNCIL TAX INCREASE OF 3.5%)

		Increase over 2008/2009	%
Revenue Budget Requirement	£72.499m	£2.197m	3.1%
Council Tax – Band D	£68.92	£2.34	3.5%

7.14 To fund these levels would require a reduction to the draft commitment budget of £0.540m. If this is the chosen option then it is proposed that this level of reduction would be achieved by:

	£m
Reduction in the provision for price increases by revising the assumed increase in the RPI from 3.0% to 1.0%.	(0.140)
Revision to list Essential Spending Pressures	
<ul style="list-style-type: none"> • Removal of provision for a new post of Policy Support Officer. 	(0.052)
<ul style="list-style-type: none"> • Removal of provision for additional community fire safety hours for retained staff to support Group Plans. 	(0.165)
<ul style="list-style-type: none"> • Reduce the provision for the implementation of an electronic Documents Management system by deferring implementation by spreading expenditure over two years. 	(0.023)
Utilisation of Reserves	(0.160)
TOTAL REDUCTIONS	(0.540)

Risk Assessment

7.15

In addition to the reductions in price increases and essential spending pressures, this option proposes that the balance of £0.160m is funded from a contribution from the General Reserve. In making this proposal however, it should be emphasised that any contribution from the General Reserve can only be used once and does not provide a sustainable means of funding future budget reductions. In addition, the Authority should be mindful of the fact that indications are that the next two years will present very challenging times for the Service in terms of funding additional budget pressures, and expectations for the delivery of efficiency savings, and therefore the extent to which the base budget is reduced by the utilisation of Reserve balances in 2009/2010, will only serve to exacerbate the difficulties to be faced in setting budgets for 2010/2011 and 2011/2012. Examples of the issues likely to impact on budget setting for 2010/2011 and 2011/2012 are:

- the full impact of the economic downturn;
- potential reductions to future government grant levels, CSR 2007 and CSR 2009;
- expectation for further efficiency savings;
- additional employer pension contributions following the actuarial assessment of pension funds due during 2009. In relation to the firefighters pension scheme, early indications are to expect an increase in contributions of around 20% to fund future liabilities, which would incur additional on-going costs of approximately £1m for this Authority;
- financial implications of the outcome of the ruling from the Part-Time Workers (less than favourable working conditions) tribunal which in 2008 ruled in favour of retained firefighters in so much as they should enjoy similar pension and sickness benefits as wholtime firefighters. Guidance on the impact from this ruling is due in the coming months and has the potential to have significant financial implications to the authority budget given the large number of retained firefighters in the workforce;
- the need to invest in the Service, e.g. further capital investment, CFS initiatives, replacement of obsolete equipment and invest-to-save initiatives.

- The potential costs at Authority level associated with the implementation of the Regional Control Centre and Firelink.

Impact to 2010/2011 and beyond

7.16 Based on Option C the MTFP assesses that the revenue budget requirement for 2010/2011 and 2011/2012 would be £75.1m and £77.1m respectively. To fund these levels of budget, it is estimated that council tax would need to be increased by 4.3% for 2010/2011, and 3.7% for 2011/2012. The forecast increase of 4.3% in 2010/2011 is higher than the increase of 3.5% for 2009/2010 as a direct consequence of the one-off use of the General Reserve in 2009/2010. To set a council tax strategy which would aspire to set an increase in 2010/2011 of no more than 2009/2010 levels (i.e. increase of 3.5%) would require consideration of how on-going efficiency savings of £0.330m can be delivered from 2010/2011 and beyond.

OPTION D – REVENUE BUDGET INCREASE OF 2.8% (COUNCIL TAX INCREASE OF 3.0%)

		Increase over 2008/2009	%
Revenue Budget Requirement	£72.299m	£1.997m	2.8%
Council Tax – Band D	£68.59	£2.01	3.0%

7.17 To fund these levels would require a reduction to the draft commitment budget of £0.740m. If this is the chosen option then it is proposed that this level of reduction would be achieved by:

	£m
Reduction in the provision for price increases by revising the assumed increase in the RPI from 3.0% to 1.0%.	(0.140)
Revision to list Essential Spending Pressures	
<ul style="list-style-type: none"> • Removal of provision for a new post of Policy Support Officer. 	(0.052)
<ul style="list-style-type: none"> • Removal of provision for additional community fire safety hours for retained staff to support Group Plans. 	(0.165)
<ul style="list-style-type: none"> • Reduce the provision for the implementation of an electronic Documents Management system by deferring implementation so as spending is over two years. 	(0.023)
Utilisation of Reserves	(0.360)
TOTAL REDUCTIONS	(0.740)

Risk Assessment

- 7.18 To fund these levels would require a reduction to the draft commitment budget of £0.740m. In addition to the reductions in price increases and essential spending pressures, this option proposes that the further reduction of £0.360m is funded from a contribution from the General Reserve. As is highlighted with Option C, it should be emphasised that any contribution from the General Reserve is only a short-term measure that provides funding for one year only. It does not provide a sustainable solution to fund budget shortfalls and will exacerbate anticipated difficulties in setting budgets for 2010/2011 and 2011/2012.

Impact to 2010/2011 and beyond

- 7.19 Based on Option D the MTFP assesses that the revenue budget requirement for 2010/2011 and 2011/2012 would be £75.1m and £77.1m respectively. To fund these levels of budget, it is estimated that council tax would need to be increased by 4.8% for 2010/2011, and 3.7% for 2011/2012. The forecast increase of 4.8% in 2010/2011 is higher than the increase of 3.0% for 2009/2010, as a direct consequence of the one-off use of the General Reserve in 2009/2010. To set a council tax strategy which would aspire to set an increase in 2010/2011 of no more than 2009/2010 levels (i.e. increase of 3.0%) would require consideration of how on-going efficiency savings of £0.750m can be delivered from 2010/2011 and beyond. To deliver on-going savings of this magnitude will inevitably require consideration of existing operational cover arrangements and what changes could be made in time to deliver the required level of savings by April 2010.

SUMMARY

- 8.1 The Authority is required to set its level of revenue budget and council tax for 2009/2010 by 1 March so that it can meet its statutory obligation to advise each of the 15 billing authorities in Devon and Somerset of the required level of precept for 2009/2010. This report provides the necessary financial background, as it impacts on this Authority, in order to inform the Committee in considering what levels would be appropriate for 2009/2010. The Committee is asked to consider each of the four options included in this report and to make a recommendation to the budget meeting of the full Authority on 16 February 2009 as to which of these is the preferred option.

KEVIN WOODWARD
Treasurer

LEE HOWELL
Chief Fire Officer

**Neil Gibbins
ACTING CHIEF FIRE OFFICER**

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**SERVICE HEADQUARTERS
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Your ref :
Our ref :
Website : www.dsfire.gov.uk

Date : 7th January 2009
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Dear Mr Lock,

**RESPONSE FROM DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY IN
RELATION TO THE REVENUE SUPPORT GRANT SETTLEMENT 2009/2010 TO
2010/2011**

In relation to the provisional Local Authority Finance Settlement announcement on the 26th November 2008 for 2009/2010 to 2010/2011, I am writing to make representations in response to the settlement as it affects Devon and Somerset Fire and Rescue Authority.

As your department will be aware, this Authority has on a number of occasions, challenged the methodology used to distribute Fire Formula grant, which in its view, does not fairly reflect the disproportionate cost issues faced by a rural authority providing fire and rescue cover in a large sparsely populated geographical area, such as Devon and Somerset. The most recent challenges were outlined in my letter dated 8th January 2008, in response to the 2008/2009 grant settlement, and my letter of the 4th October 2007, in response to proposed changes to grant distribution formulae.

It is disappointing that the eventual changes made to the Fire Formula grant, as included into the current three-year grant settlement figures covering the years 2008/2009 to 2010/2011, were nothing more than a 'fine tuning' exercise, rather than an attempt to address some of the failings of the current distribution methodology, which means that there was no attempt to eradicate those elements of the formula which resulted in an inequitable distribution of grant. There are three specific issues that this authority has raised previously, and which it again, as part of this consultation exercise, requests are addressed in the final 2009/2010, and future, settlements. These issues are:-

- The inequity of the Formula Grant system to recognise the additional costs of running a rural fire and rescue authority i.e. sparsity.
- The inequity of the Formula Grant system in the way that support to capital spending is distributed.

The additional financial burden from changes in legislation which now provides access to a pension scheme for retained fire-fighters. It is estimated that this change alone has placed an additional financial burden on the Authority in 2008/2009 of £0.480 million.

The paragraphs below expand further on each of these issues.

SPARSITY

The current formula distribution mechanism for Fire does not include a sparsity factor, and therefore does not reflect the additional resource implications of providing a Fire Service in a rural area. This is the case despite the fact that in the other Formula Grant calculations, such as Education, Social Services and Police, sparsity is recognised as a factor.

The issue is amply demonstrated by looking at grant per head of population for urban and rural authorities:

2009/2010 Average grant per head = £24.64

Urban Authorities

Cleveland	£39.84
London	£33.82
Merseyside	£34.05

Rural Authorities

Hereford and Worcester	£14.27
Wiltshire	£14.54
Dorset	£15.34
Devon and Somerset	£18.16

The impact of recent large scale flooding incidents is a good example of the sort of issues that are not adequately recognised in formula grant, and which impact on rural areas in particular. This position can only be exacerbated from the impact of climate change. Sparsity is also an important influence on costs because of: -

- Distance of travel, which is compounded when topographical features such as moors, rivers, estuaries, etc are also prevalent in area;
- The need to provide fire cover, at a disproportionate cost to its utilisation;
- Diseconomies of scale;
- Management effort in terms of running a large retained fire service with generally high turnover rates of staff.
- Significant transport costs.

In terms of area covered, sparse Fire and Rescue Authorities are in a different league from urban authorities. For example, area covered on average per rural station compared with that of urban stations is shown below:

Sparse		Urban	
	Hectares		Hectares
Cumbria	18,000	London	1,400
Lincolnshire	16,000	Merseyside	2,400
North Yorks	22,000	Manchester	3,100
Devon and Somerset	12,400	West Yorks	4,000

Because of the huge areas they have to cover rural authorities have to maintain many more fire stations than their urban counterparts, as shown in the table below. This compares the population served on average by each station in urban and rural areas.

Sparse		Urban	
	Population per station		Population per station
Cumbria	13,000	London	67,500
Lincolnshire	18,000	Merseyside	52,000
Devon and Somerset	19,900	West Midlands	63,000

Clearly, it is important that the grant distribution formula is changed to include an allowance to recognise the additional costs of sparsity by taking into account the area of each authority and the number of fire stations an authority has to maintain to meet fire cover requirements.

What Devon and Somerset FRA is seeking: an equitable grant distribution formula which fully reflects the additional costs of maintaining service provision in a large rural area, both through an allowance for the area served and an allowance for the number of fire stations necessary to maintain minimum standards of fire cover across the area.

ALLOCATION OF CAPITAL RESOURCES

The Formula grant includes support for capital spending through a formula to calculate notional debt charges emanating from capital spending levels. Prior to the introduction of the Prudential Code this calculation was based upon the amount of Basic Credit Approval allocated to each Authority. Whilst the Prudential Code now permits authorities to set its own levels of capital spending, as long the spending is prudent and affordable, the Formula Grant calculation still includes a contribution towards the debt charges, which is based upon the Supported Capital Expenditure (Revenue) figure, which is a figure allocated to each Authority by government to enable the calculation of notional debt charges to be made.

Under current arrangements the total amount of supported capital expenditure is split between Metropolitan Fire Authorities 50.9% and non-Metropolitan Fire Authorities 49.1%, with the non-Metropolitan share being distributed based upon population, and the Metropolitan share being distributed based on a formula which takes account of the number of fire stations, appliances and staff that each authority has. This distribution would clearly seem to favour Metropolitan Authorities as is illustrated from Table 1 below;

TABLE 1 – ANALYSIS OF SUPPORTED CAPITAL EXPENDITURE (PER HEAD OF POPULATION)

	Population (m)	Supported Capital Expenditure (SCE) 2009/2010 (£m)	Number of Stations	SCE per station (£)
<i>Combined Fire Authorities</i>				
Devon and Somerset	1.681	1.757	82	£21,426
Hampshire	1.711	1.811	52	£34,826
Kent	1.673	1.750	65	£26,923
Essex	1.700	1.788	51	£35,058
<i>Metropolitan Fire Authorities</i>				
Merseyside	1.353	3.160	26	£121,538
South Yorkshire	1.296	2.748	25	£109,920
Greater Manchester	2.580	4.396	41	£107,219
Tyne and Wear	1.075	2.129	17	£125,235

As can be illustrated from the above the current mechanism for the distribution of SCE amongst fire authorities is 'unfair' and clearly does not recognise the needs of a more rural Fire Service, which will inevitably have greater capital spending issues as a result of the need to build and maintain more fire stations, and to replace more fire appliances and equipment. For instance, under the current distribution methodology Tyne and Wear (£2.129m), receives a larger allocation than Devon and Somerset (£1.757m), even though it has significantly less fire stations, i.e. 17 compared to 82. Similarly, when compared to other combined fire authorities, Devon and Somerset receives a similar SCE figure to that of Hampshire, Kent and Essex, as all have similar populations, and yet Devon and Somerset has by far the greater number of stations.

What Devon and Somerset FRA is seeking: An equitable formula for the allocation of SCE (R) which is consistent right across England, and which reflects the factors which give rise to the need for Capital Spending.

ADDITIONAL COSTS RELATING TO RETAINED STAFF JOINING THE NEW PENSION SCHEME

The new fire-fighters pension scheme has for the first time given access to a scheme for retained staff. This has incurred a new cost to fire authorities in relation to an employer's contribution for each member that joins the scheme. Whilst this has placed additional financial burdens on most FRA's, it will be in rural authorities such as Devon and Somerset where the biggest cost impact will be felt. To put this into context, Devon and Somerset FRA currently employs **1,185 retained staff**, of which 512 (43%) have opted to join the pension scheme, at an additional cost of £480,000 for 2008/2009. This figure can only grow in future years, as new entrants are automatically entered into the scheme. For a Metropolitan Authority such as Greater Manchester (**36 retained staff**) or South Yorkshire (**53 retained staff**) the impact of this change has been relatively insignificant. There is no recognition in the new formula of this additional burden.

What Devon and Somerset FRA is seeking: A formula, which is changed to reflect the additional burdens faced by rural authorities in relation to employer's contributions to the Pensions Account for retained staff. If this issue is not to be reflected in Formula grant distribution, then this Authority would request that funding be allocated through 'New Burdens' grant.

SUMMARY

It is the view of this Authority that the most recent changes to the Fire Formula Grant, as introduced into the current three-year settlement, does not go far enough to eradicate some of the flaws contained in the current methodology, and requests that the CLG give serious consideration to the changes suggested in this response.

Yours faithfully

Kevin Woodward
Treasurer to Devon and Somerset Fire and Rescue Authority

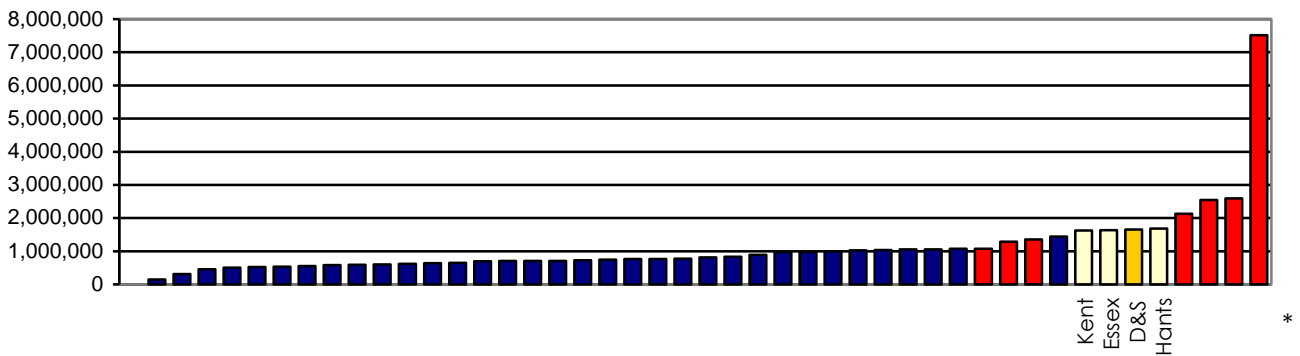


The profile of Devon & Somerset Fire & Rescue Service compared to other English fire & rescue services.

Population

Within Devon and Somerset there is a residential population of 1.66 million. A very similar number when compared to Kent (1.62 million), Essex (1.64 million) and Hampshire (1.69 million).

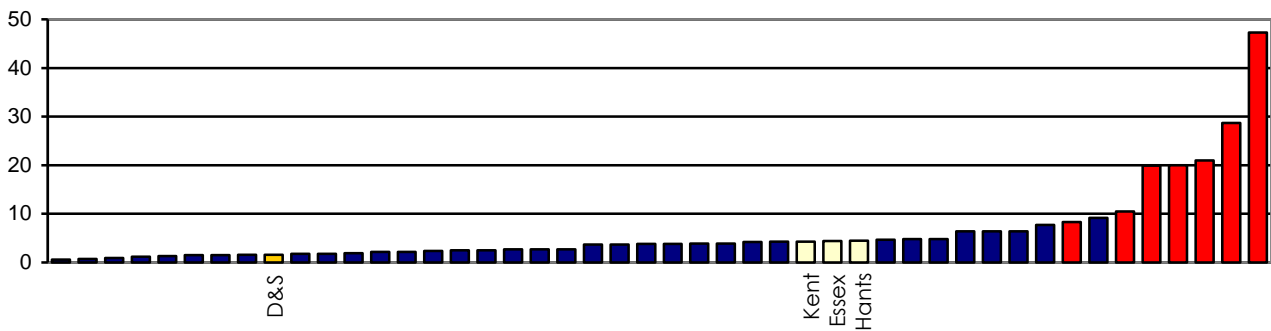
Population as at June 2007*:



Population Density

Not surprisingly, the Service has one of the most sparsely populated areas.

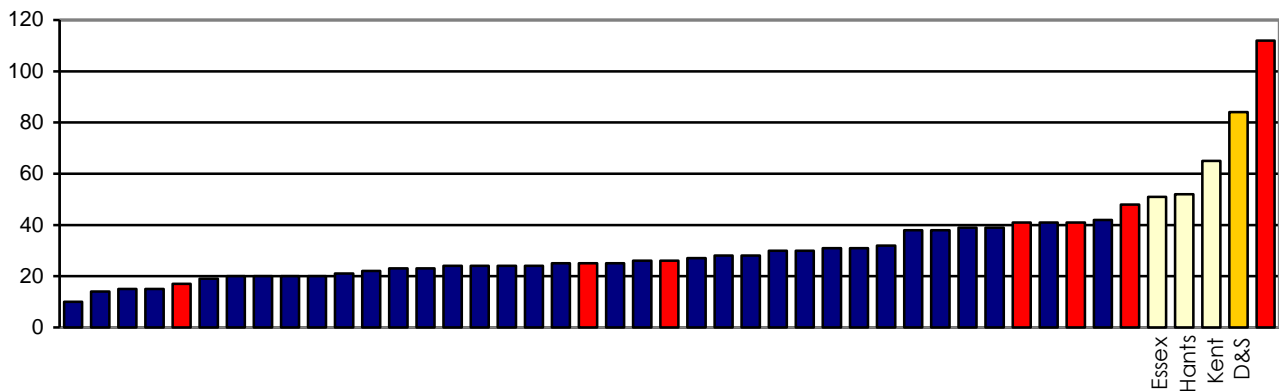
Population per hectare:



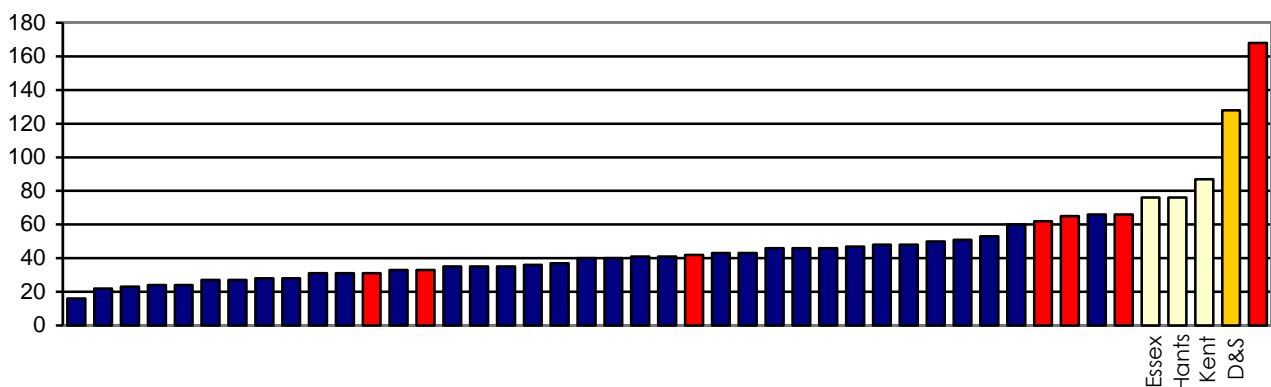
Resources

To provide services to the community, there are the following number of stations, appliances and people employed.

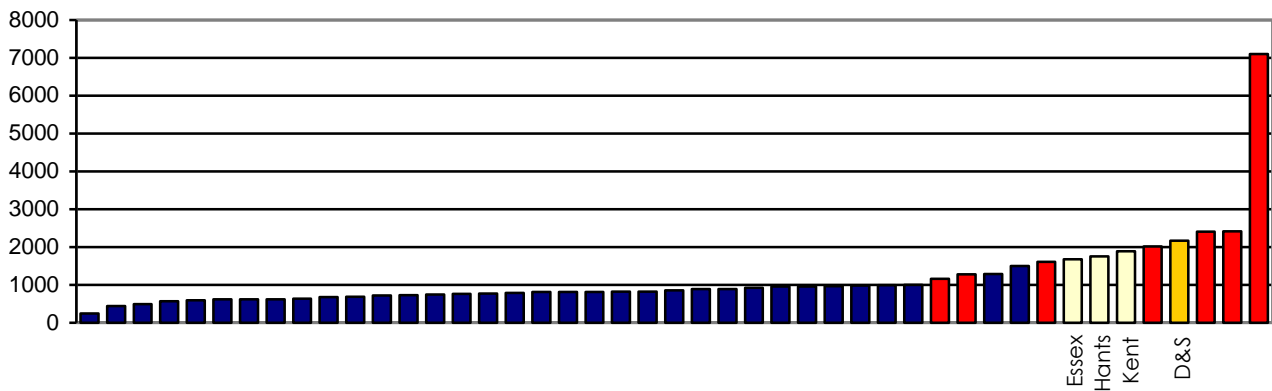
Estimated number of Fire Stations as at 31 March 2008:



Estimated number of pumping appliances as at 31 March 2008:



Estimated number of people employed (FTE) as at 31 March 2008:



DRAFT REVENUE COMMITMENT BUDGET 2009/2010

		£m		%
	Revenue Budget 2008/2009		70.302	
	<u>Provision for Pay and Prices Increases</u>			
1	Uniformed Pay Award	1.116		
2	Non-uniformed pay award	0.201		
3	Provision for increase in prices	0.426		
4	Provision for inflationary increase in pensions	0.090		
			1.833	2.6%
	<u>Inescapable Commitments</u>			
5	One-off utilisation of Reserves in 2008/2009	0.153		
6	Additional debt charges arising from revised capital programme	0.131		
7	Leasing costs for replacement light vehicle programme	0.144		
8	Reduction in investment income following reductions in interest rate.	0.232		
9	Increase in insurance premiums	0.019		
10	Reduction in retained pay costs	(0.158)		
11	Provision for Pay Increments and other pay changes	0.128		
12	Additional pension costs from ill-health retirements	0.068		
13	Implementation of Integrated Clothing Project	0.064		
14	Provision for increase in utilities and rates costs	0.028		
15	Costs of fitting Firelink into light vehicles	0,055		
16	Reduction in income levels	0.033		
17	Smoke alarm replacements previously funded from capital grants.	0.057		
18	Inadequate budget for transport costs	0.055		
19	Reduction in training costs from economies of scale from combination	(0.095)		
20	Roll out of Incident Reporting System	0.040		
21	Other changes (net)	0.038	0.992	1.4%
	<u>Efficiency Savings</u>			
22	Phase 2 of the dual crewing of Aerial appliances	(0.293)		
23	Full year impact of reduction in Area Manager posts from 12 to 9.	(0.078)		
24	Changes in the delivery of Road Traffic Collision training	(0.038)		
25	Introduction of E-learning into training programmes	(0.058)		
26	Re-structure of the Operational Assets Department	(0.045)		
27	Introduction of mobile working practices	(0.035)		
28	Procurement and other savings	(0.126)	(0.673)	(0.9)%

DRAFT REVENUE COMMITMENT BUDGET 2009/2010 (CONTINUED)

		£m		%
	Essential Spending Pressures			
29	Enhance the delivery of Group Community Fire Safety activities	0.165		
30	Introduction of community targeting systems	0.012		
31	Property Maintenance e.g. thermal insulation programme	0.100		
32	Introduction of E-Market place systems	0.030		
33	New post to support policy development	0.052		
34	Introduction of systems to monitor retained staff availability	0.026		
35	Introduction of electronic document management systems	0.150		
36	Provision for a Member development programme	0.020		
37	Continuation of review of operational shift patterns	0.030	0.585	0.8%
	TOTAL CHANGES (LINES 1 TO 37)		2.737	3.9%
	DRAFT REVENUE COMMITMENT BUDGET 2009/2010		73.039	

REPORT ON PRECEPT CONSULTATION FOR 2009-10 BUDGET**1. BACKGROUND**

1.1 Section 65 of the Local Government Finance Act 1992 requires precepting authorities to consult non-domestic rate payers on its proposals for expenditure. The Act requires the consultation for each financial year to be completed before the first precept is issued by the authority for that financial year.

1.2 In January 2007 Devon and Somerset Fire and Rescue Service undertook its first precept survey by commissioning a telephone survey to question businesses on the proposed level of precept. This same method was used in 2008 and again in 2009.

2. SURVEY METHODOLOGY

2.1 Whilst there are many different options that could be used for public consultation, the time restriction for completing the survey renders the options of postal survey and focus groups impractical. Therefore, as in previous years a telephone survey was commissioned with an external agency. The survey was conducted between Wednesday 7 January and Friday 16 January 2008.

2.2 The key specifications of the survey were:

- To ask 4 questions
- To collect both closed and open question answers
- To provide a representative sample by constituent area (i.e. Devon County Council, Plymouth City Council, Somerset County Council and Torbay Council)

2.3 The survey sample size is important for quantitative consultation if statistical analysis is to be applied to the results. The sample size is determined by the population, confidence and confidence interval. It is important to set the confidence interval for the survey appropriately with regard to the importance attached to the results. It is important to remove the possibility of chance from the outcomes and to understand the accuracy of the results. A confidence interval of +/- 5% at 95% confidence level be set. At the estimated business population a sample of 400 is required, see Table 1.

Table 1: Population and sample size

Constituent authority	Actual number of businesses	%	Proportionate sample	Adjustment	Proposed sample		Actual response	
					Count	%	Count	%
Devon	34960	52.2%	209	-27	182	46	177	44
Somerset	22875	34.1%	136	-18	118	29	119	29
Plymouth	5115	7.6%	30	+ 20	50	12.5	59	15
Torbay	4060	6.1%	25	+ 25	50	12.5	50	12
Total	67010	100%	400	0	400	100%	405	100%

(The data on the actual number of businesses contained in Table 1 are produced from a snapshot of the Inter Departmental Business Register (IDBR) taken on 21 March 2008.)

3. RESULTS

3.1 1192 businesses were contacted to participate in the survey from which:

- 405 (34%) businesses completed the survey
- 141 (12%) businesses declined to participate
- 646 (54%) numbers unobtainable/incorrect/no answer

Question 1 asked: 'For 2009/10 Devon and Somerset Fire and Rescue Authority is estimating a Council Tax increase of no more than 4.9% to maintain current standards of service. This would set a Council Tax figure of £69.81 per year per band 'D' property, an increase of 27p per month (£3.23 per year). Do you consider £69.81 to be value for money?'

- 3.2 68% of respondents agreed that the proposed charge did represent value for money and 32% felt it wasn't. Table 2 illustrates that fewer respondents from Plymouth considered the proposed level of Council Tax to be value for money when compared with respondents from the other constituent authority areas.

Table 2: Responses to Question 1 by Local Authority Area.

Response	Plymouth		Devon		Somerset		Torbay	
	Count	%	Count	%	Count	%	Count	%
Yes	29	60%	94	66%	80	68%	36	78%
No	19	40%	48	34%	37	32%	10	22%
Total	48	100%	142	100%	117	100%	46	100%

- 3.3 When compared against the results from the 2007/08 survey it is observed that fewer respondents considered the proposed level of Council Tax to be value for money, see Table 3

Table 3: Question 1 Do you consider '£x' to be value for money? - Comparison between results in 2007/08, 2008/09 and 2009/10

Response	2007/08 Proposed Council Tax £63.45	2008/09 Proposed Council Tax £66.58	2009/10 Proposed Council Tax £69.81
Yes	79%	75%	68%
No	21%	25%	32%
Total	100%	100%	100%

- 3.4 There were 49 general comments received from respondents on this question. The themes of the comments were:
- A difficult question, who wouldn't pay extra for an emergency service
 - Not appropriate in current economy
 - Should be funded by government money
 - Pay too much already
 - DSFRS should have enough money already

Question 2 asked: 'What percentage increase, based on last year's figure of £66.58, would you consider reasonable?'

3.5 This question was asked if respondents answered ‘No’ to Question 1. Respondents were given the opportunity of answering with options between 2.5% and 4.5%. Of the 103 respondents who answered this question 64% would not find any increase on last years figure of £66.58 to be reasonable with 36% feeling an increase between 2.5% and 4.5% would be reasonable.

Table 4: Question 2 ‘What percentage increase, based on last year’s figure of £66.58, would you consider reasonable?’

Proposed % increase	Number of responses	Response %
4.5%	4	4%
4%	1	1%
3.5%	3	3%
3%	12	12%
2.5%	17	16%
None	66	64%
Total	103	100%

3.6 There were 68 general comments received from respondents on this question. The themes of the comments were:

- Something in line with inflation
- Don’t know what figure would be reasonable
- Hadn’t thought about it
- An increase is not appropriate in the current economy
- There should be no council tax
- Pay too much already
- DSFRS should have enough money already
- Nothing can do about the increase

Question 3 asked: ‘Would you be prepared to pay £1 more per year per household, in addition to the proposed charge of £66.58 per year, to enable Devon and Somerset Fire and Rescue Service to improve community safety?’

3.7 All respondents who answered ‘Yes’ to Question 1 were asked if they would be prepared to pay £1 more to improve community safety. 93% (211) of participants responded that they would, which equates to 52% of all the respondents who were surveyed.

3.8 There were 45 general comments received from respondents on this question. The themes of the comments were

- Want to see where money is going and how it is spent
- Will pay the money as long as it is well spent and there is improvement
- Money should be better allocated/organised
- An increase is not appropriate in the current economy
- There should be no increase
- Pay too much money already
- DSFRS should have enough money already
- Don’t have a choice have to pay

Question 4 asked: 'If you were not prepared pay an extra £1 per year per household, how much would you be prepared to pay?'

- 3.9 All respondents who answered 'No', 'don't know' or 'other comment' to Question 3 were asked how much extra they would be prepared to pay to improve community safety. Only two respondents answered this, the options they were given were £0.75, £0.50, £0.25 one selected £0.50 and the other £0.25. Three respondents provided additional comments, the comments were:
- 'I really don't have a choice do I'
 - 'I do not agree with the combination of Devon and Somerset I think that this is why the increase is a full pound.'
 - 'I am not looking forward to having anything increased this year'

4. CONCLUSION

- 4.1 The results of the telephone survey indicate that there is support for the proposed level of Council Tax and a high proportion of the respondents would be prepared to pay an additional £1 to improve community safety. Over the last three years there appears to be a decreasing opinion that the proposed level of Council Tax provides value for money. Underlying messages are that less people consider the proposed level of Council Tax to be value for money and the additional comments indicate that there is concern about increasing Council Tax in the current economic situation.