

# DEVON & SOMERSET FIRE & RESCUE AUTHORITY



<b>REPORT REFERENCE NO.</b>	RC/11/2
<b>MEETING</b>	RESOURCES COMMITTEE
<b>DATE OF MEETING</b>	28 JANUARY 2011
<b>SUBJECT OF REPORT</b>	2011/2012 REVENUE BUDGET AND COUNCIL TAX LEVEL
<b>LEAD OFFICER</b>	Treasurer and Chief Fire Officer
<b>RECOMMENDATIONS</b>	<p><i>That it be recommended to the the budget setting meeting of the Fire and Rescue Authority, to be held on the 14 February 2011, that;</i></p> <p>(i) <i>the level of council tax in 2011-12 for a Band D property be frozen at the 2010-11 level of £71.77, as outlined as Option B in paragraph 4.2 of this report;</i></p> <p>(ii) <i>a Net Budget Requirement of £76,235,000 for 2011/2012 be set;</i></p>
<b>EXECUTIVE SUMMARY</b>	It is a legislative requirement that the Authority sets a level of revenue budget and council tax by the 1 March each year. The Committee is asked to consider the contents of this report, with a view to making a recommendation of these levels for 2011/2012 to the full Authority budget meeting on 14 February 2011.
<b>RESOURCE IMPLICATIONS</b>	As indicated in the report.
<b>EQUALITY IMPACT ASSESSMENT</b>	No potentially negative impact sufficient enough to warrant a full impact assessment has been identified in the content of this report.
<b>APPENDICES</b>	<p>A. Draft Revenue Budget 2011-12.</p> <p>B. Summary of Medium Term Financial Plan (MTFP) Scenario Modelling.</p>
<b>LIST OF BACKGROUND PAPERS</b>	Nil.

## **1. INTRODUCTION**

- 1.1 It is a legislative requirement that the Authority sets a level of revenue budget and council tax for the forthcoming financial year, before 1 March, in order that it can inform each of the 15 council tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2011/2012. The purpose of this report is to provide Members with the necessary financial background, in order that consideration can be given as to what would be appropriate levels for the Authority.
- 1.2 The report proposes that the level of council tax for a Band D property for 2011/2012 is frozen at the 2010/2011 level of £71.77. This would enable the net budget requirement to be set at £76.235m, representing an increase in budget of £1.100m (1.46%) over 2010/2011. The Committee is asked to recommend these levels to the Fire and Rescue Authority meeting to be held on the 14 February 2011.

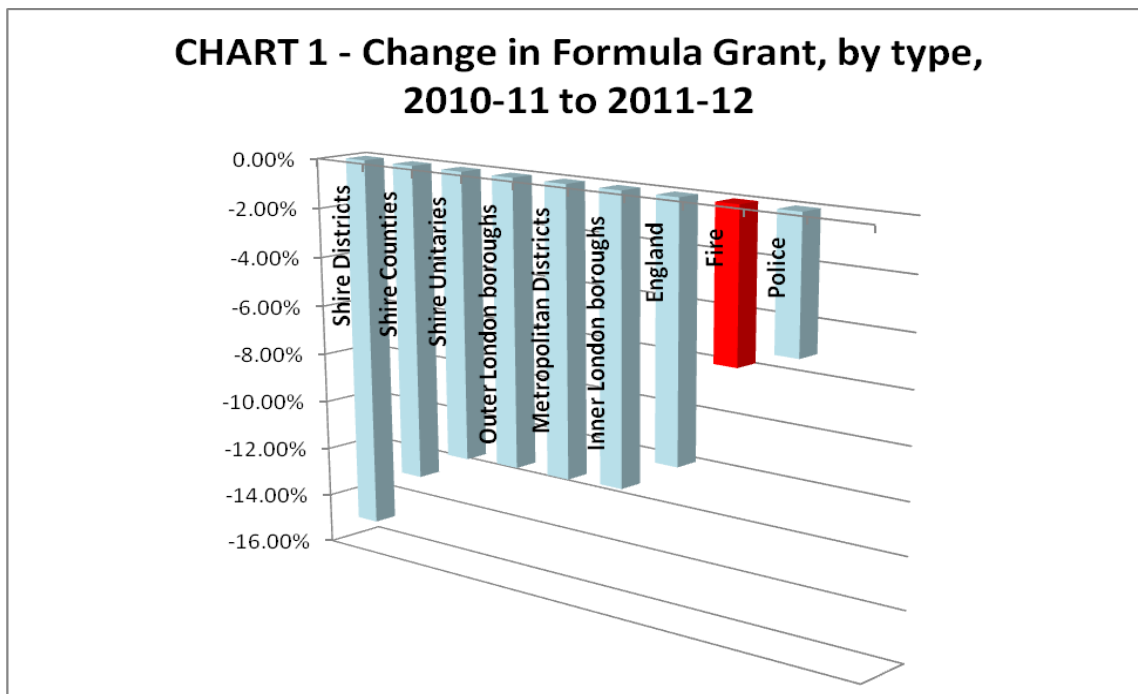
## **2. COMPREHENSIVE SPENDING REVIEW 2010 (CSR 2010)**

- 2.1 Members will be well aware of the economic background which has led to the government announcing its plans to reduce the national structural deficit over the next four years by 2014/2015. The Spending Review in October 2010 provided specific details of how public spending would be reduced over the next four years from 2011/2012, including significant reductions in local authority grants over this period.
- 2.2 For fire and rescue authorities CSR 2010 announced reductions in government grants of 25% by 2014-15, representing a real terms reduction in spending of 13% by 2014-15, bearing in mind that, on average, government grant funding represents 50% of total fire and rescue spending.
- 2.3 A 25% reduction in government grants obviously represents a significant reduction in future funding streams and will require fire and rescue authorities to put plans in place to have delivered significant reductions in spending over the CSR 2010 period. However, the Fire Service has been provided with some protection as, unlike other local authorities, the reductions have been weighted so that they are back-loaded to 2013-14 and 2014-15, in order that fire and rescue authorities are given time to implement changes without affecting the quality and breadth of service to communities.
- 2.4 The CSR announcement also confirmed details of a new grant known as Council Tax Freeze Reward Grant which will be paid to those authorities who set a zero per cent or less, increase in council tax for 2011-12. The amount of grant payable will be equivalent to the amount of precept income that would have been generated from setting a council tax increase of 2.5%. For Devon and Somerset FRA this figure equates to £1.098m. The government have made a commitment to continue to pay this grant for the four year period of the CSR period, but there is no guarantee that this grant will continue beyond 2014-15.

## **3. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2011-12 AND 2012-13**

- 3.1 The provisional Local Government Finance Settlement for 2011/2012 was announced on the 13 December 2010. This announcement provided local authorities with individual grant allocations for the next two financial years 2011-12 and 2012-13. The reason that grant figures have only been released for the next two years, rather than the whole four-year period of CSR 2010, is that the government has announced its intention to fundamentally change the way local authorities are to be funded from 2013-14. It is expected that details of the changes to be made will be consulted on during 2011.

3.2 The settlement announced average government grant reductions for England in 2011-12 of -9.9% when compared to 2010-11, and reductions of -7.3% in 2012-13 when compared to 2011-12. For fire and rescue authorities, however, the reductions are not so severe, -5.7% in 2011-12 and a further -0.7% in 2012-13. Chart 1 below illustrates the reductions in grant in 2011-12 for Fire as compared to other local authority groups.



3.3 Chart 1 clearly illustrates that Fire will receive lower reductions in funding in 2011-12 than other groups, which is consistent with the government commitment that the larger reductions in Fire funding will be back-loaded to 2013-14 and 2014-15.

Impact of Provisional Grant Settlement to Devon and Somerset FRA

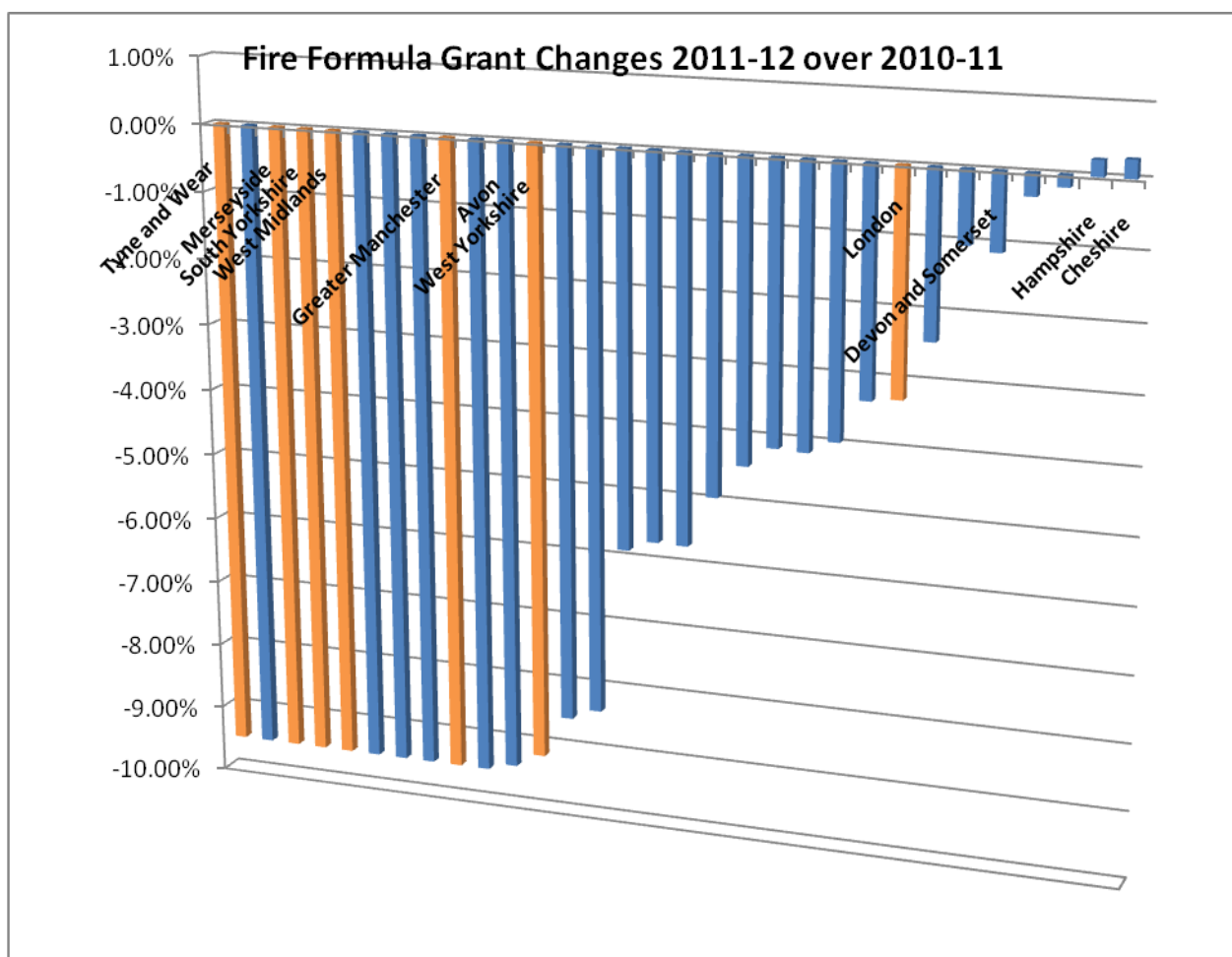
3.4 The actual reduction in grant for Devon and Somerset FRA in 2011-12 is -1.1% over 2010-11, and an increase of +1.9% in 2012-13 over 2011-12. Table 1 below provides a summary of the grant allocations. It should be emphasised that at the time of writing this report the grant allocations are provisional subject to any changes made by the CLG as part of the final grant settlement announcement, to be made at the end of January, after the consultation period has expired. It is not anticipated that there will be any changes to the grant allocations for Devon and Somerset FRA as part of the final settlement, but until confirmation of this is received then the figures can only be regarded as provisional.

<b>TABLE 1 – FINAL GRANT SETTLEMENT FIGURES</b>	<b>£m</b>	<b>%</b>
Formula Grant 2011-12	30.896	
<b>Reduction over 2010-11 Grant</b>	<b>(0.349)</b>	<b>-(1.1)%</b>
Formula Grant 2012-13	31.484	
<b>Increase over 2011-12 Grant</b>	<b>0.588</b>	<b>+1.9%</b>

3.5

These allocations are certainly more favourable than had had been anticipated, which is as a consequence of the government introducing changes to the way Fire Formula grant is distributed. A number of changes have been made which, in general, benefit the more rural authorities such as Devon and Somerset FRA, primarily at the expense of the larger urban FRA's, who are suffering much larger reductions in grant (-9.5%) in 2011-12. Members will be well aware that this Authority has been very active for a number of years in challenging the CLG that the previous distribution formula was flawed, which, in particular did not reflect the additional costs of providing a fire and rescue service in a sparse rural area. It is very pleasing therefore that the government has finally introduced changes which we believe makes the distribution methodology more equitable. Chart 2 below provides an analysis of changes in grant for all FRA's in 2011-12.

**CHART 2**



3.6

Chart 2 illustrates that whilst the average reduction in grant for Fire is -5.7% the range of reductions are from -9.5% (ten FRAs) to +0.26% (Cheshire FRA). As the government has set a floor of -9.5% no FRA has suffered a reduction of more than -9.5%.

Capping

3.7

The government has already published a consultation document setting out its intentions to abolish the capping system from 2012-13. Capping has been in place for a number of years and used as a means of government intervening where authorities are deemed to have set excessive increases in council tax. From 2012-13 capping will be replaced with a new system which will give local residents the powers to veto excessive increases in council tax through a local referendum.

- 3.8 As the new system will not be in place until the financial year 2012-13, the government has emphasised as part of the grant settlement that it will continue to use its capping powers in 2011-12 for those authorities which set excessive increases in council tax. As is normally the case, the government has not identified what level of increase will be considered to be excessive; this will not be published until later in the year.

#### **4. PROPOSED COUNCIL TAX AND BUDGET REQUIREMENT 2011/2012**

##### Council Tax

- 4.1 The government has laid out its expectations that local authorities set a zero percent increase in council tax in 2011-12. To encourage authorities to do this the government has introduced the new grant of Council Tax Freeze Grant, which will be paid those authorities that set a zero per cent increase in council tax for 2011-12. It should be emphasised that it is still an Authority decision to set a level of council tax that is appropriate to its funding position, and indeed it is voluntary as to whether the Authority agrees to accept the grant available.
- 4.2 As is stated earlier in this report the government has emphasised that it will use capping powers available to them to those authorities that set excessive increases in budget and council tax in 2011-12. Whilst the principles to be used by the government to assess whether increases are excessive will not be known until after council tax levels have been set, given that it has been announced that the amount of new Council Tax Reward will be equivalent to an increase of 2.5% in council tax in 2011-12, it is my view that this is likely to be used as the benchmark for capping considerations. With this in mind the Authority has two options in terms of setting a level of council tax for 2011-12.
- Option A - To increase council tax for a Band D property in 2011-12 by 2.5% over 2010-11** - This would increase council tax from its current level of £71.77 to £73.56, representing an increase of £1.79.
- Option B - To freeze council tax for a Band D property in 2011-12 at the same level as 2010-11** - This would freeze council tax at its current level of £71.77, and result in the Authority being entitled to receive council tax freeze reward grant equivalent to the amount of precept that would have been generated from an increase in council tax by 2.5%. For Devon and Somerset FRA the amount of reward is £1.098m, which will be paid for each of the four financial years covered by CSR 2010 i.e. 2011-12 to 2014-15.
- 4.3 Each option results in the same level of revenue budget for 2011-12, so in terms of spending power there is no difference between the two options. The advantage of choosing Option A is that the £1.098m of additional precept generated by increasing council tax by 2.5% will be built into base and will therefore be available for the Authority to spend in all future annual budgets. Option B however only guarantees that the £1.098m will be available to spend up until 2014-15, and therefore does carry the risk that in the event that the reward grant ceases from 2015-16, the Authority will be in the position of having to make the decision in 2015-16 of either increasing council tax to make up the shortfall or identifying further savings of £1.098m in that year.
- 4.4 Whilst Option B does carry with it some risk, given that the Authority grant settlement for 2011-12 and 2012-13 is more favourable than had been anticipated, and also given our responsibility to our council taxpayers to contain council tax increases whenever possible, it is the recommendation of this report that the Authority selects this option and agrees to freeze council tax for a Band D property at the 2010-11 level of £71.77.

- 4.5 It is estimated that to set a council tax for a Band D property at £71.77 will result in total funding of £76.235m being available to fund revenue spending in 2011-12. Table 2 below illustrates how this figure is calculated. At the time of writing this report this figure can only be regarded as an estimate, due to the fact that some of the council tax base figures and declaration of surpluses/deficits on council tax collection funds from the 15 billing authorities in Devon and Somerset are still to be approved by their relevant authorities. It is therefore possible that some minor changes will be made which would result in a change to the total funding available for 2011-12.

<b><u>TABLE 2 – SUMMARY OF REVENUE FUNDING AVAILABLE 2011-12 COMPARED TO 2010-11</u></b>	<b>2010-11 £m</b>	<b>2011-12 £m</b>	<b>Change £m</b>
Government Grant	31.245	30.896	-0.349
Council Tax Precept (based on council tax of £71.77 for a Band D property)	43.705	43.943	+0.238
Surplus on Billing Authority Council Tax Collection Funds	0.185	0.298	+0.113
Council Tax Freeze Reward Grant	-	1.098	+1.098
<b><i>TOTAL FUNDING AVAILABLE</i></b>	<b>75.135</b>	<b>76.235</b>	<b>+1.100</b>

- 4.6 Net Budget Requirement  
As is illustrated in Table 2 to freeze council tax at its current level of £71.77 results in funding of £76.235m being available to set a Net Revenue Budget Requirement for 2011-12. To set the budget for 2011-12 at £76.235m represents an increase of £1.100m, or 1.46%, over the 2010-11 agreed budget of £75.135m. Table 3 below provides a summary of a proposed revenue budget for 2011-12 on the basis of setting the budget at this level. A breakdown of the more detailed items included in this draft budget are included in Appendix A.

<b><u>TABLE 3 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2011/2012</u></b>	<b>£m</b>	<b>%</b>
Approved Net Revenue Budget Requirement 2010/2011	75.135	
PLUS Provision for pay and price increases (items 1 to 4 included in Appendix A to this report)	0.079	
PLUS Inescapable Commitments (items 5 to 10 included in Appendix A to this report)	1.288	
MINUS One-off investments in 2010-11 (items 11 to 16 included in Appendix A to this report)	(0.800)	
PLUS Invest-to-Save/Essential Spending Pressures (items 17 to 19 included in Appendix A to this report)	1.575	

<b>CORE SPENDING REQUIREMENT 2011/2012</b>	<b>77.277</b>	
MINUS Budget Reductions (items 20 to 26 included in Appendix A to this report)	(1.042)	
<b>NET REVENUE BUDGET REQUIREMENT 2011/2012</b>	<b>76.235</b>	
<b>INCREASE IN BUDGET OVER 2010/2011 (£m)</b>		<b>1.100</b>
<b>INCREASE IN BUDGET OVER 2010/2011 (%)</b>		<b>1.46%</b>

Invest-to-Save/Essential Spending Pressures

- 4.7 In constructing the budget requirement for 2011-12 an amount of £1.575m has been included for new investment in the Service. In assessing how this sum is to best utilised Senior Management Board has adopted the strict criteria that any new investment has to contribute towards the Business Change and Improvement Programme and/or contribute to plans to reduce spending by 2014-15.
- 4.8 From the range of new investment bids that have been received from budget managers the following three areas of investment are proposed.
- I. **Change and Improvement Programme (invest-to-save)** – an amount of £0.723m has been identified as the minimum requirement in 2011-12 to support the significant work required to bring about the changes within the Service that will contribute to the budget reductions by 2014-15. The majority of this sum will be required to fund the staffing costs of the programme and project management arrangements established to govern and implement the change programme, and also investment in new IT systems. It is anticipated that the significant savings to be delivered from this programme will begin to be realised during 2011-12.
  - II. **Revenue Contribution to Capital Spending (invest-to-save)** - elsewhere on the agenda is a separate report proposing a revised capital programme for the years 2011-12 to 2013-14. The proposed programme has been constructed on the basis of keeping within prudential code limits and, in particular, containing as much as possible the Authority's exposure to external borrowing, now and into the future, and keeping debt charges within a 5% limit of the revenue budget. This is achieved by reducing overall capital spending in the period 2011-12 to 2013-14, and making a contribution of £1.5m from the revenue budget (£0.750m in 2011-12 and £0.750m in 2012-13). If this revised programme is approved then it is forecast that annual savings in debt charges of £0.427m will be achieved by 2013-14.
  - III. **Replacement Training System** – the existing training and course management system (RTIX) is no longer supported by the supplier and a replacement system is therefore required urgently, estimated cost of £0.088m. It is important that the replacement system forms part of the Service integrated ICT strategy and minimises duplication of effort and data, and streamlines processes.

## 5. MEDIUM TERM FINANCIAL PLAN

- 5.1 In formulating the net budget requirement for the next financial year, an assessment has also been made of the indicative core budget requirements for the following three years, i.e. 2012-13 to 2014-15. This assessment has provided indicative budget figures of £78.0m for 2012-13, £79.0m for 2013-14 and £80.8m for 2014-15. Table 4 provides a summary of how these figures have been constructed.

<b><u>TABLE 4 – SUMMARY OF SPENDING REQUIREMENT 2011-12 to 2014-15</u></b>	<b>2011-12 £m</b>	<b>2012-13 £m</b>	<b>2013-14 £m</b>	<b>2014-15 £m</b>
Approved Net Revenue Budget Requirement 2010/2011	<b>75.135</b>	<b>75.135</b>	<b>75.135</b>	<b>75.135</b>
Provision for pay and price increases	0.079	1.342	2.930	4.556
Inescapable Commitments	1.288	1.691	1.837	1.989
One-off investments in 2010-11	(0.800)	(0.875)	(0.875)	(0.875)
Invest-to-Save	1.575	0.750	-	-
<b>CORE SPENDING REQUIREMENT 2011/2012</b>	<b>77.275</b>	<b>78.043</b>	<b>79.027</b>	<b>80.805</b>

- 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 these forecasts which will inevitably be subject to change. However, these figures are considered prudent forecasts of future budgets which can be used to refresh the Authority's Medium Term Financial Plan (MTFP) to inform financial planning and provide updated forecasts of the levels of budget reductions required by 2014-15 to balance the budget.

## 6. PLANS TO ACHIEVE BUDGET REDUCTIONS 2011-12 TO 2014-15

- 6.1 As is stated earlier in this report the Local Government Grant Settlement has provided details of grant allocations for the next two years. In the event, the Authority has had a more favourable settlement for those two years than had been anticipated, which is to be welcomed. However the grant reductions for 2013-14 and 2014-15 have not been announced at FRA level, which leads to uncertainty as to the scale of budget reductions that the Authority will be required to have delivered by 2014-15. Of course, what we do know is that the grant reductions for Fire have been back-loaded so the more severe reductions are still to come in 2013-14 and 2014-15.
- 6.2 Whilst we cannot be certain of the scale of budget reductions, the MTFP financial modelling tool can be used to assess what is considered to be 'best case' and 'worst case' scenarios. This modelling has forecast the scale of reductions required by 2014-15 to be between -4.5m (best case) and -£9.2m (worst case). Appendix B provides a summary of this modelling including key assumptions used in each case e.g. likely grant reductions and council tax increases.



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

**Improving efficiency by: -**

Better management and control of spending and suppliers,  
Sharing managers and operational/business support functions,  
Changing how we respond to co-responder calls for the ambulance service.  
Providing better targeted prevention advice.  
Buying slightly smaller fire engines for relevant areas.  
Commencing discussions with staff as to how we can make the existing shift system work better rather than imposing a new shift pattern/start finish times.  
Savings from reductions in the senior management team in 2010.  
Managing with fewer operational and non operational staff (standardising crewing levels in Somerset & Devon, introducing Day Crewed Plus and improving business processes).

**Reducing costs: -**

Risk managed approach to reduce spend.  
Not attending repeated false alarms from the same premises and/or charge for repeated defective alarm system call outs.  
Ending the Regional Management Board (a political body).  
Reducing spending by Councillors.  
Pay restraint (recognising national conditions of service apply).  
Using money saved in 2010/11 as a result of tight budget management (ring fenced reserves).

**Generating income: -**

Selling training and other functions to others

- 6.4 Many of these savings proposals have been identified from the findings of the two fundamental reviews which have been undertaken over the last two years, the first of which has been to review Service Delivery, and the second to examine Service Support areas. Officers are confident that this package of proposals can be implemented over the next four years in order to secure the necessary budget reductions by 2014-15.
- 6.5 The process has of course already started. This report already proposes a range of budget reductions of £1.042m to be delivered in 2011-12 (Appendix A items 20 to 26), all of which are on-going savings and will therefore contribute to the total savings requirement by 2014-15.
- 6.6 Elsewhere on the agenda is a separate report which considers a revised capital programme for the period 2011-12 to 2013-14. This report proposes a revision to the capital programme which reduces debt charges from new borrowing by an amount of £0.427m by 2013-14. The budget reduction forecasts included in paragraph 6.2 have already been adjusted to reflect this saving, on the basis that this revised programme is approved.
- 6.7 Looking further ahead, the recent launch of the draft Corporate Plan for 2011-12 to 2013-14 includes some of the proposals for budget reductions. This Plan is currently undergoing a consultation period to May 2011. On completion of this consultation period, a further report will be brought back to this Committee to report on the feedback from the consultation and how this will be used to shape our budget reduction plans.

## 7. PRECEPT CONSULTATION 2011-12

- 7.1 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 that, every financial year, consultation be completed before the first precept is issued by the authority for that financial year. The Department for Communities and Local Government (CLG) previously advised that there is no statutory requirement to consult the general public on this matter.
- 7.2 Telephone surveys have been used to undertake the business precept surveys because of the short timescale to complete the research. It was decided that this proven methodology should be adopted again for 2011/12. The key specifications for the survey were:
- To ask 4 key question plus demographic information;
  - To collect answers to both closed and open questions;
  - To provide a representative sample by constituent area (Devon County Council; Plymouth City Council; Somerset County Council; and Torbay Council).
- 7.3 At its meeting on 16 December 2010 the Devon and Somerset Fire and Rescue Authority (DSFRA) approved the reduction of the business sample size to 100, minute 46 refers. This provides a confidence interval of +/- 10% at the 95% confidence level. The survey was undertaken between 4<sup>th</sup> and 14<sup>th</sup> January 2011, but, due to the reporting timescales, results presented in this report are un-weighted top line results only. Once the full results have been provided and analysed a more detailed report will be available for the DSFRA budget setting meeting on 14 February 2011.
- 7.4 Below are the top line results that reveal:
- the majority of respondents, 76.7% (79), agreed that, in response to the government's request, the Council Tax charge should not be increased (see table 5.1); and that
  - 78.6% (81) agreed that Devon and Somerset Fire and Rescue Service (DSFRS) provides value for money at a total annual budget equating to £135.66 per household (see table 5.2).

**Table 5.1 – Responses to Question 1:** 'The coalition government has requested that local authorities do not increase their council tax charges for 2011/12. In response to the government's request, do you agree or disagree that Devon and Somerset Fire and Rescue Authority should NOT increase (i.e. 0%) their council tax charge for 2011/12?'

<b>Response</b>	<b>Number</b>	<b>Percentage</b>
Agree	79	76.7%
Neither Agree nor Disagree	14	13.6%
Disagree	9	8.7%
Don't Know	1	1.0%
<b>Total</b>	<b>103</b>	<b>100%</b>

**Table 5.2 – Responses to Question 2: ‘Devon and Somerset Fire and Rescue Service’s total annual budget equates to £135.66 per household across Devon and Somerset. Do you agree that DSFRS provides value for money?’**

<b>Response</b>	<b>Number</b>	<b>Percentage</b>
Agree	81	78.6%
Neither Agree nor Disagree	15	14.6%
Disagree	4	3.9%
Don’t Know	3	2.9%
<b>Total</b>	<b>103</b>	<b>100%</b>

7.5 For Question 2, the cost quoted for 2011, £135.66 was calculated from the total revenue budget and capital budgets to provide a total cost of running the service per household. In previous years’ questions the cost indicated represented only the Council Tax charge for a Band ‘D’ property. This change was made to meet legislative requirements and to provide rate payers with a more accurate assessment of the costs of DSFRS.

7.6 The results of the telephone survey indicate that, despite the higher cost presented for the value for money question, the level of agreement was above the average level (76%) set over the last four years. Although the current cost of the service to rate payers is seen as being value for money, there is a high level of support for the government’s proposal to freeze the Council Tax charge for 2011/12.

**8. RESERVES AND BALANCES**

8.1 In setting the revenue budget and council tax for 2011/2012, 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 2011/2012. 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.

8.2 At this time, the level of General Reserve is £4.453m, equivalent to 5.9% of the revenue budget. Elsewhere on the agenda for this meeting is a report monitoring the current year’s revenue budget (RC/11/1). This indicates a projected underspend of £1.363m. Some of this figure may be available to be transferred to the General Reserve at the year-end, depending on the need for this sum to be utilised to fund emerging issues, e.g. new fire control facilities or potential costs from the Employment Tribunal case which has ruled that retained firefighters should enjoy similar conditions of service to their wholetime colleagues. At the end of the financial year once the 2010-11 final outturn position is known the Authority will need to decide how any underspend is to be utilised.

- 8.3 In terms of a strategy for Reserve balances, 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.
- 8.4 It is, of course, pleasing that the Authority has not experienced the need to call on reserve balances in the last three years to fund emergency spending. This has enabled the balance, through budget underspends, to be increased to a level in excess of 5%. However, given the current economic climate and the resultant uncertainties about grant funding levels for the years 2013-14 and 2014-15, it is my view that the Authority should seek to protect reserve balances, as much as possible, to provide added financial stability through this turbulent period.
- 8.5 It should also be emphasised that this Authority is placed in the lower quartile when compared to all fire and rescue authorities. The average reserve balance for all FRAs is 13.5% of revenue budget, with the Upper Quartile being 15.0% and Lower Quartile 8.0%. Consequently, even at 5.9% the Authority’s reserve level would still be the fourth lowest of all combined fire and rescue authorities in the country, positioning the Authority at 29 out of 33.

## **9. SUMMARY**

- 9.1 The Authority is required to set its level of revenue budget and council tax for 2011/2012 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 2011/2012. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for Devon and Somerset FRA.
- 9.2 The report recommends that the Authority agrees to freeze the 2011-12 council tax for a Band D Property at the 2010-11 level of £71.77 (Option B paragraph 4.2), resulting in a Net Revenue Budget Requirement of £76.235m for 2011-12. The Committee is asked to consider the contents of the report with a view to recommending these levels to the budget setting meeting of the full Fire and Rescue Authority, to be held on the 14 February 2011.

**KEVIN WOODWARD**  
Treasurer

**LEE HOWELL**  
Chief Fire Officer

**APPENDIX A TO REPORT RC/11/2**

**DRAFT REVENUE BUDGET REQUIREMENT 2011/2012**

		£m	£m	%
	<b>Revenue Budget 2009/2010</b>		<b>75.135</b>	
	<b><u>Provision for Pay and Prices</u></b>			
1.	Uniformed Pay - July 2010 (budgeted 1.0% LESS actual of 0.00%) - July 2011 (assumed 0.0%)	(0.350) 0.000		
2.	Non-Uniformed Pay - April 2009 (budgeted 1.0% LESS actual of 0.0%) - April 2011 (assumed 0.0%)	(0.113) 0.000		
3.	Provision for prices increases (assumed CPI of 3.0%) plus additional allowance for fuel, utilities and non-domestic rates)	0.482		
4.	Provision for inflationary increase in pension costs.	0.060		
			0.079	
	<b><u>Inescapable Commitments</u></b>			
5	Additional debt charges arising from proposed capital programme	0.193		
6	Pay increments and other pay changes	0.592		
7	Replacement of obsolete Hand Held Radios	0.200		
8	Enhanced Breathing Apparatus Training to comply with Fire Service Circular 18/2009	0.165		
9	Additional rates costs relating to new fire stations	0.073		
10	Other minor costs(net)	0.065		
			1.288	
	<b><u>One-off Provisions included in 2010-11 Budget</u></b>			
11	Removal of Temporary Posts	(0.098)		
12	Installation of Airwave radios	(0.112)		
13	Document Records Management System	(0.030)		
14	Business Change Programmes	(0.455)		
15	Enabling works to install station end equipment	(0.034)		
16	Training Costs associated with Mobile Data Terminals (MDTs)	(0.071)		
			(0.800)	
	<b><u>Invest-to-Save/Essential Spending Pressures</u></b>			
17	Change and Improvement Programme (invest-to-save)	0.737		
18	Revenue Contribution to Capital Spending (invest-to-save)	0.750		
19	Replacement Training system	0.088		
			1.575	
	<b>CORE SPENDING REQUIREMENT 2011/2012</b>		<b>77.277</b>	
	<b><u>Proposed Budget Reductions</u></b>			
20	Vacancy Management	(0.425)		
21	Efficiency Savings identified from devolved budget holders	(0.342)		
22	Dissolution of Regional Management Board	(0.025)		
23	Restructure of Senior Management Board in 2010	(0.050)		
24	Changes to mobilisation arrangements to co-responder and Automatic Fire Alarm (AFA) calls	(0.075)		
25	Share Management Support/Back office functions	(0.025)		
26	Surplus income from Trading Arm	(0.100)		
			(1.042)	
	<b>TOTAL CHANGES (LINES 1 TO 26)</b>		<b>1.100</b>	<b>1.46%</b>
	<b>CORE REVENUE BUDGET REQUIREMENT 2011/2012</b>		<b>76.235</b>	

APPENDIX B TO REPORT RC/11/2

**MEDIUM TERM FINANCIAL PLAN – FORECAST BUDGET REDUCTIONS**

**SCENARIO A – BEST CASE**

KEY ASSUMPTIONS	2011/12	2012/13	2013/14	2014/15
PAY AWARD	0.0%	2.0%	2.0%	2.0%
INFLATION	3.0%	3.0%	3.0%	3.0%
GOVERNMENT GRANT REDUCTIONS OVER FOUR YEARS (OVER AND ABOVE 2010-11)	<b>(1.1)% Actual</b>	0.1% Actual	<b>(5.0%) Forecast</b>	<b>(10.0%) Forecast</b>
INCREASE IN COUNCIL TAX	0.0%	2.0%	2.0%	2.0%
<b>CORE SPENDING REQUIREMENT (£m)</b>	<b>77.2</b>	<b>78.0</b>	<b>79.0</b>	<b>80.8</b>
GOVERNMENT GRANT (£m)				
- Formula Grant	(30.9)	(31.4)	(29.7)	(28.1)
- Council Tax Precept	(44.2)	(45.1)	(46.0)	(47.1)
- Council Tax Freeze Grant	(1.1)	(1.1)	(1.1)	(1.1)
TOTAL FUNDING	(76.2)	(77.6)	(76.8)	(76.3)
<b>FORECAST SAVINGS REQUIRED (£m)</b>	<b>(1.0)</b>	<b>(0.4)</b>	<b>(2.2)</b>	<b>(4.5)</b>

**SCENARIO B – WORST CASE**

KEY ASSUMPTIONS	2011/12	2012/13	2013/14	2014/15
PAY AWARD	0.0%	2.0%	2.0%	2.0%
INFLATION	3.0%	3.0%	3.0%	3.0%
GOVERNMENT GRANT REDUCTIONS OVER FOUR YEARS (OVER AND ABOVE 2010-11)	<b>(1.1)% Actual</b>	0.1% Actual	<b>(12.0%) Forecast</b>	<b>(25.0%) Forecast</b>
INCREASE IN COUNCIL TAX	0.0%	2.0%	2.0%	2.0%
<b>CORE SPENDING REQUIREMENT (£m)</b>	<b>77.2</b>	<b>78.0</b>	<b>79.0</b>	<b>80.8</b>
GOVERNMENT GRANT (£m)				
- Formula Grant	(30.9)	(31.4)	(27.5)	(23.4)
- Council Tax Precept	(44.2)	(45.1)	(46.0)	(47.1)
- Council Tax Freeze Grant	(1.1)	(1.1)	(1.1)	(1.1)
TOTAL FUNDING	(76.2)	(77.6)	(74.6)	(71.6)
<b>FORECAST SAVINGS REQUIRED (£m)</b>	<b>(1.0)</b>	<b>(0.4)</b>	<b>(4.4)</b>	<b>(9.2)</b>