

**M. Pearson
CLERK TO THE AUTHORITY**

**To: The Chair and Members of the
Resources Committee
(see below)**

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RESOURCES COMMITTEE
(Devon and Somerset Fire and Rescue Authority)

Wednesday 19 October 2011

A meeting of the Resources Committee will be held on the above date, **commencing at 10:00 hours in Conference Room B in Somerset House, Service Headquarters** to consider the following matters.

M. Pearson
Clerk to the Authority

AGENDA

1. **Apologies**
2. **Minutes** of the meeting held on 22 July 2011 attached (Page 1).
3. **Items Requiring Urgent Attention**

Items which, in the opinion of the Chair, should be considered at the meeting as matters of urgency.

4. **Declarations of Interest**

Members are asked to consider whether they have any **personal/personal and prejudicial interests** in items as set out on the agenda for this meeting and declare any such interests at this time. *Please refer to the Note 2 at the end of this agenda for guidance on interests.*

PART 1 – OPEN COMMITTEE

5. **Treasury Management Performance 2011/12 (to September 2011)**

Report of the Treasurer (RC/11/9) attached (page 4)

6. **Financial Performance Report 2011/12 - Quarter 2**

Report of the Treasurer (RC/11/10) attached (page 11)

7. **Consultation on the Distribution of Fire Capital Grant**

Report of the Treasurer (RC/11/11) attached (page 22)

8. **Consultation on the Proposals for Business Rates Retention**

Report of the Treasurer (RC/11/12) attached (page 26)

PART 2 – ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF THE PRESS AND PUBLIC

Nil

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Gordon (Chair), Yeomans (Vice Chair), Bakewell MBE, Horsfall, Hughes OBE, Smith and Woodman

Substitute Members

Members are reminded that, in accordance with Standing Order 36, the Clerk (or his representative) MUST be advised of any substitution prior to the start of the meeting.

NOTES

1. ACCESS TO INFORMATION

Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact Sam Sharman on the telephone number shown at the top of this agenda.

2. DECLARATIONS OF INTERESTS BY MEMBERS

What Interests do I need to declare in a meeting?

As a first step you need to declare any personal interests you have in a matter. You will then need to decide if you have a prejudicial interest in a matter.

What is a personal interest?

You have a personal interest in a matter if it relates to any interests which you must register, as defined in Paragraph 8(1) of the Code.

You also have a personal interest in any matter likely to affect the well-being or financial position of:-

- (a) you, members of your family, or people with whom you have a close association;
- (b) any person/body who employs/has employed the persons referred to in (a) above, or any firm in which they are a partner or company of which they are a director;
- (c) any person/body in whom the persons referred to in (a) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
- (d) any body of which you are a Member or in a position of general control or management and which:-
 - you have been appointed or nominated to by the Authority; or
 - exercises functions of a public nature (e.g. a constituent authority; a Police Authority); or
 - is directed to charitable purposes; or
 - one of the principal purposes includes the influence of public opinion or policy (including any political party or trade union)

more than it would affect **the majority** of other people in the Authority's area.

Anything that could affect the quality of your life (or that of those persons/bodies listed in (b) to (d) above) either positively or negatively, is likely to affect your/their "well being". If you (or any of those persons/bodies listed in (b) to (d) above) have the potential to gain or lose from a matter under consideration – to a **greater extent** than **the majority** of other people in the Authority's area - you should declare a personal interest.

What do I need to do if I have a personal interest in a matter?

Where you are aware of, **or ought reasonably to be aware of**, a personal interest in a matter you must declare it when you get to the item headed "Declarations of Interest" on the agenda, or otherwise as soon as the personal interest becomes apparent to you, **UNLESS** the matter relates to or is likely to affect:-

- (a) any other body to which you were appointed or nominated by the Authority; or
- (b) any other body exercising functions of a public nature (e.g. membership of a constituent authority; other Authority such as a Police Authority);

of which you are a Member or in a position of general control or management. In such cases, provided you do not have a prejudicial interest, you need only declare your personal interest if and when you speak on the matter.

Can I stay in a meeting if I have a personal interest?

You can still take part in the meeting and vote on the matter unless your personal interest is also a prejudicial interest.

What is a prejudicial interest?

Your personal interest will also be a **prejudicial** interest if **all** of the following conditions are met:-

- (a) the matter is not covered by one of the following exemptions to prejudicial interests in relation to the following functions of the Authority:-
 - statutory sick pay (if you are receiving or entitled to this);
 - an allowance, payment or indemnity for members;
 - any ceremonial honour given to members;

- setting council tax or a precept; **AND**
- (b) the matter affects your financial position (or that of any of the persons/bodies as described in Paragraph 8 of the Code) or concerns a regulatory/licensing matter relating to you or any of the persons/bodies as described in Paragraph 8 of the Code); **AND**
- (c) a member of the public who knows the relevant facts would reasonably think your personal interest is so significant that it is likely to prejudice your judgement of the public interest.

What do I need to do if I have a prejudicial interest?

If you have a prejudicial interest in a matter being discussed at a meeting, you must declare that you have a prejudicial interest (and the nature of that interest) as soon as it becomes apparent to you. You should then leave the room unless members of the public are allowed to make representations, give evidence or answer questions about the matter by statutory right or otherwise. If that is the case, you can also attend the meeting for that purpose.

You must, however, leave the room **immediately after you have finished speaking (or sooner if the meeting so decides)** and you cannot remain in the public gallery to observe the vote on the matter. Additionally, you must not seek to **improperly influence** a decision in which you have a prejudicial interest.

What do I do if I require further guidance or clarification on declarations of interest?

If you feel you may have an interest in a matter that will need to be declared but require further guidance on this, please contact the Clerk to the Authority – preferably before the date of the meeting at which you may need to declare the interest. Similarly, please contact the Clerk if you require guidance/advice on any other aspect of the Code of Conduct.

RESOURCES COMMITTEE

(Devon and Somerset Fire and Rescue Authority)

22 July 2011

Present:-

Councillors Bakewell MBE, Gordon, Healey (vice Horsfall), Hughes OBE, Smith, Woodman and Yeomans

Apologies:-

Councillor Horsfall

***RC/1. Election of Chair**

RESOLVED that Councillor Gordon be appointed Chair of the Committee until its first meeting after the Authority Annual General Meeting in 2012.

***RC/2. Minutes**

RESOLVED that the Minutes of the meeting held on 18 May 2011 be signed as a correct record.

***RC/3. Declarations of Interest**

Members of the Committee were asked to consider whether they had any personal/personal and prejudicial interests in items as set out on the agenda for this meeting and declare any such interests at this time.

No interests were declared.

***RC/4. Election of Vice Chair**

RESOLVED that Councillor Yeomans be appointed Vice Chair of the Committee until its first meeting after the Authority Annual General Meeting in 2012.

***RC/5. Treasury Management Performance 2011/12**

The Committee received for information a report of the Treasurer (RC/11/7), as presented by the Mr. Adam Burleton from SECTOR, the Authority's independent Treasury Management adviser, on the Authority's performance against its approved Treasury Management Strategy for the first quarter of the current (2011/12 financial year). The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management recommended, amongst other things, that the Authority should receive such a report at least twice yearly.

The report concluded that no Prudential Indicators had been breached and that a prudent approach had been adopted on investment decisions taken so far, with priority being given to liquidity and security over yield. While investment returns were low as a consequence of the fall in interest rates, the Authority was still achieving returns above the LIBID 7 day rate, which was the appropriate benchmark for this type of short-term investments.

RC/6.

Financial Performance Report 2011/12 - Quarter 1

The Committee considered a report of the Treasurer (RC/11/8) on the performance of the Authority for the first quarter of the current (2011/12) financial year against the agreed financial targets for that year. It also detailed the monitoring position in relation to the approved revenue budget and capital programme.

In relation to revenue, a forecast saving of £0.317m (0.42%) on the approved budget was projected. The projection was based on the spending position as at the end of June, historical trends, information from budget managers and known commitments. It was highlighted that, while every effort was made to ensure the accuracy of the projection, it was still very early in the new financial year and that certain budget lines (e.g. retained pay costs) were – because of the link to activity levels – somewhat volatile. Indicative overspends on wholetime and control room staffing costs were off-set by indicative underspends on non-uniformed staffing costs and fuel costs.

The report also detailed savings to date against those areas identified for savings as part of the approved revenue budget along with the current position in relation to reserves and provisions.

In relation to the capital programme, indications were that the capital budget would not be fully spent in 2011/12. If the indicated pattern was maintained then it was likely that revenue savings would accrue from reduced debt charges resulting from needing to borrow less. The scheme to enhance the Service training facility at the Exeter airport, however, was now anticipated to cost in total £3.0m against currently approved total funding of £2.9m (£1m in 2011/12 and £1.9m in 2012/13). Should the project increase be approved, the additional cost could be met from other lines within the estates capital programme.

The report also identified issues in relation to outstanding debt. While the previous target for aged debt (debt over 85 days old) had been set at 10% or less of all debt, it was acknowledged that the aim should be to maximise cash available to the Authority and consequently, for the current financial year, a target of 5% would be worked to. Although the current figure (18.69%) was significantly in excess of this new, lower, target, this included two specific debtors which were subject to legal proceedings. If these two debtors were removed from the calculation then the performance would improve to 8.08%.

In addition to the report, the Treasurer reported on the purchase of Middleware technology (business process modelling and systems integration hardware and software). This technology had been identified as key to supporting the change and improvement programme endorsed by the Authority and for which financial provision had been made in the approved revenue budget for the current year. Some £180,000 of the purchase cost, however, related to capital expenditure. Consequently it would be necessary to obtain, in accordance with Financial Regulations, Authority approval to fund the purchase from the established, ring-fenced change and improvement revenue provision and to increase the capital programme accordingly. The capital programme increase would not, however, represent any increase in external borrowing requirement as the cost – as indicated - would be funded from a revenue contribution towards capital.

RESOLVED

- (a) that the target of below 5% for debt in excess of 85 days old as set out in the report and referred to above be endorsed;
- (b) that the total budget for the capital project for training facilities at Exeter airport be increased from £2.9m to £3.0m, with the increase being met from other lines within the estates capital programme;
- (c) that, to facilitate the purchase of Middleware, the full Authority be recommended to approve:
 - (i) the following virement in accordance with Financial Regulations:

	Budget From £000	Budget To £000
Equipment and Furniture	(180,000)	
Revenue Contribution to Capital spending		180,000

- (ii) an increase in the 2011/12 capital programme (fleet and equipment) of £180,000 to be funded from the above contribution from revenue
- (d) that the monitoring position in relation to projected spending against the 2011-2012 revenue and capital budgets as detailed in report RC/11/8 and indicated above be noted.
- (e) that the performance against the 2011-2012 financial targets as detailed in report RC/11/8 and indicated above be noted.

***DENOTES DELEGATED MATTER WITH POWER TO ACT**

The meeting started at 10.00hours and finished at 11.30hours



DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	RC/11/9
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	19 OCTOBER 2011
SUBJECT OF REPORT	TREASURY MANAGEMENT PERFORMANCE 2011/2012 (TO SEPTEMBER 2011)
LEAD OFFICER	TREASURER
RECOMMENDATIONS	<i>That the performance in relation to the treasury management activities of the Authority for 2011/2012 (to September 2011) be noted;</i>
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code of Practice for Treasury Management in November 2009. The revised Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA's revised Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 30 September 2011.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/11/2 – as approved at the meeting of the Devon and Somerset Fire and Rescue Authority held on the 14 February 2011.

1. INTRODUCTION

- 1.1 The Treasury Management Strategy for Devon and Somerset FRA had been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2001. The adoption of the Code was originally made at the meeting of the DSFRA held on the 16th March 2007. A revised Code of Practice was adopted by the authority at the budget meeting held on 19 February 2010. The Authority fully complies with the primary requirements of the Code, which includes:
- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities.
 - The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.
 - The Receipt by the full Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, **a Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
 - The delegation by the authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- 1.2 Treasury management in this context is defined as:
- “The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. ”*
- 1.3 The preparation of this report demonstrates that the Authority is implementing best practice in accordance with the code.

2. ECONOMIC BACKGROUND

Global economy

- 2.1 The Euro zone sovereign debt crisis continued with Spain, and particularly Italy, being the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Euro zone response, left commentators concerned over the potential impact of sovereign default and resulting effect on the Euro zone banking sector. The approval by various countries of the £440bn bail-out fund in September has brought temporary relief to financial markets but this does not provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support.
- 2.2 This, coupled with political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poors, has led to a much more difficult and uncertain outlook for the world economy.

2.3 Growth prospects in the US, UK and the Euro zone have been lower than expected, with future prospects similarly cut. Whilst not a central view, concerns of a double dip recession in some Western countries have increased. World stock markets fell in the second quarter of 2011/12 as a consequence.

UK economy

2.4 Following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.2% in the first quarter of 2011/12, providing a knock on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.

2.5 Inflation remains stubbornly high, although the expectation of future falls, the external nature of the price increases (energy, oil, food etc.), and the negative impact a rate rise would have on the UK economy, is likely to stop the Monetary Policy Committee from raising the Bank Rate for some considerable time to come. An indicator of the worsening position arose from the Monetary Policy Committee minutes recently signalling a greater willingness to expand the quantitative easing programme

2.6 International investors continue to view UK government gilts as being a safe haven from the EU sovereign debt crisis. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and sent PWLB borrowing rates to low levels.[3.3](#)

Outlook for the next six months of 2011/12

2.7 There remain huge uncertainties in economic forecasts due to the following major difficulties:

- the speed of economic recovery in the UK, US and EU;
- the likely political gridlock in the US preventing significant government fiscal action to boost growth ahead of the Presidential elections in November 2012
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy
- the degree to which government austerity programmes will dampen economic growth;
- the potential for more quantitative easing, and the timing of this in both the UK and US
- the speed of recovery of banks' profitability and balance sheet imbalances

2.8 The overall balance of risks is weighted to the downside:

- We expect low and modest growth in the UK to continue, with a low Bank Rate to continue for at least 12 months, coupled with a possible extension of quantitative easing. This will keep investment returns depressed.
- The expected longer run trend for PWLB borrowing rates is for them to rise, primarily due to the need for a high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. However the current safe haven status of the UK may continue for some time, postponing any increases until 2011

2.9 Sector's interest rate forecast

Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.50%
3 Month Libid	0.82%	0.70%	0.70%	0.70%	0.70%	0.70%	0.90%	1.10%	1.30%	1.60%	1.90%	2.40%	2.70%
6 Month Libid	1.10%	1.00%	1.00%	1.00%	1.20%	1.30%	1.50%	1.70%	1.90%	2.10%	2.40%	2.70%	3.00%
12 Month Libid	1.59%	1.50%	1.50%	1.50%	1.60%	1.80%	2.00%	2.25%	2.50%	2.75%	3.00%	3.40%	3.70%
5 yr PWLB Rate	2.44%	2.50%	2.70%	2.90%	3.00%	3.10%	3.20%	3.40%	3.60%	3.80%	4.00%	4.10%	4.20%
10 yr PWLB Rate	3.52%	3.80%	4.00%	4.10%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%
25 yr PWLB Rate	4.56%	5.00%	5.00%	5.10%	5.10%	5.10%	5.20%	5.20%	5.30%	5.40%	5.40%	5.50%	5.50%
50 yr PWLB Rate	4.73%	5.00%	5.00%	5.10%	5.10%	5.10%	5.20%	5.20%	5.30%	5.40%	5.40%	5.50%	5.50%

3. TREASURY MANAGEMENT STRATEGY STATEMENT

Annual Investment Strategy

- 3.1 The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement (TMSS) was approved by the Authority on the 14th February 2011. It outlines the Authority's investment priorities as follows:
- Security of Capital
 - Liquidity
- 3.2 The Authority will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions using the Sector suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Sector.
- 3.3 There are no policy changes to the TMSS, the details in this report update the position in the light of the updated economic position and budgetary changes already approved.
- 3.4 A full list of investments held as at 30 September 2011 are shown in Appendix A.
- 3.5 Investment rates available in the market have continued at historically low levels.
- 3.6 The average level of funds available for investment purposes during the quarter was £22.283m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

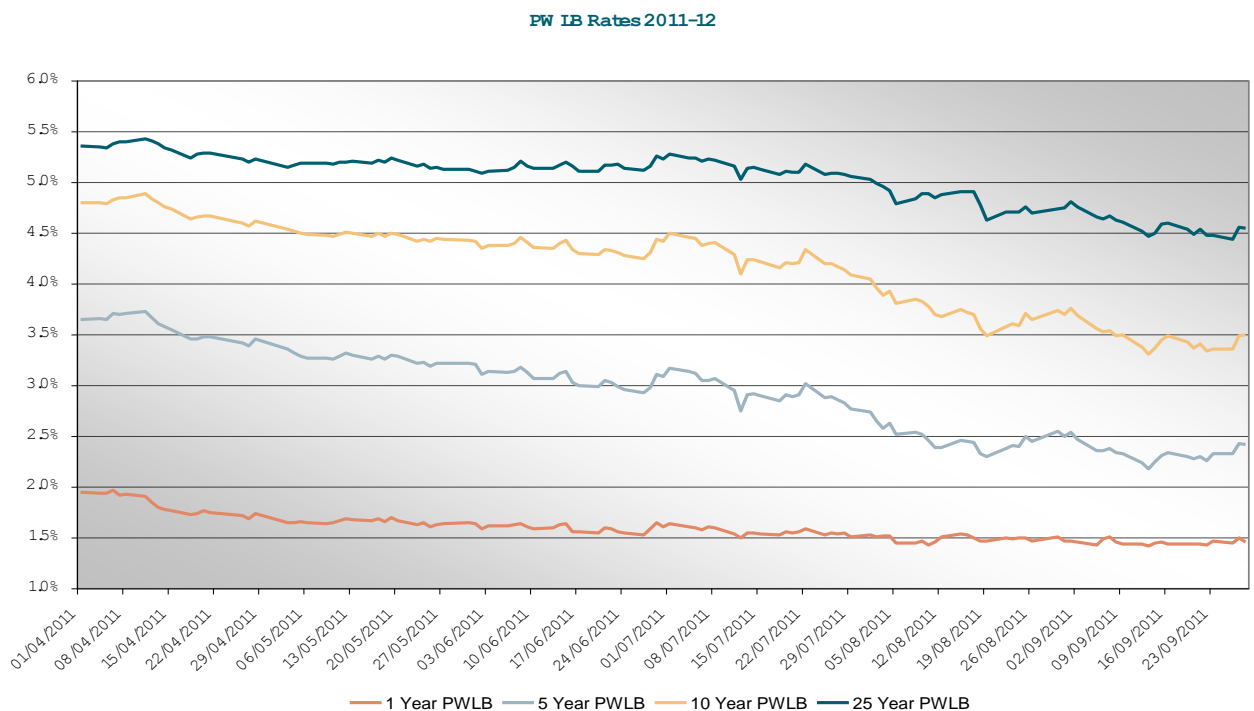
Benchmark	Benchmark Return	Authority Performance	Investment interest for quarter
3 Month LIBID	0.72%	0.82%	£46,387

- 3.7 As illustrated, the authority outperformed the benchmark by 10 bp. The Authority's budgeted investment return for 2011/12 is £0.100m, and performance so far this year indicates that this figure will be overachieved by £0.055m.

Borrowing Strategy

Prudential Indicators:

- 3.8 It is a statutory duty for the Authority to determine and keep under review the “Affordable Borrowing Limits”. The Authority’s approved Prudential Indicators (affordability limits) are outlined in the approved TMSS.
- 3.9 A full list of the approved limits (as amended) are included in the Financial Performance Report 2011/2012, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to September 2011.
- 3.10 Total external borrowing as at 30 September 2011 is £27.909m, compared to a figure as at 30 June 2011 of £28.608m. No new external borrowing was taken during this quarter of the year, with an amount of £0.699m of debt being repaid. No debt rescheduling was undertaken during this quarter of the year.
- 3.11 The graph below shows the movement in PWLB rates for the first six months of the year and provide benchmarking data showing high and low points.



- 3.12 As was reported at the last meeting of this Committee, it is anticipated that internal borrowing and available grants will reduce the call on borrowing. However if capital spend is in line with programme levels then borrowing will be undertaken during the second half of the financial year.

4. SUMMARY

- 4.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides members with a mid-year summary report of the treasury management activities for 2011/2012. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken so far, with priority being given to liquidity and security over yield. Whilst investment returns are still low as a consequence of the fall in interest rates, the authority is still achieving returns above the LIBID 3 month rate, which is the benchmark return for this type of short term investments.

KEVIN WOODWARD
Treasurer

APPENDIX A TO REPORT RC/11/9

Investments as at 30th September 2011						
% of total investments	Counterparty	Maximum to be invested (£m)	Total amount invested (£)	Call or Term	Date if Term	Interest Rate
21.48%	Santander UK & Cater Allen	5.0	1.500	T	17/10/2011	1.32%
			1.500	T	21/12/2011	1.35%
			1.500	T	01/02/2012	1.32%
18.84%	Bank of Scotland	5.0	1.500	T	16/07/2011	2.05%
			2.445	C		0.75%
7.16%	Barclays	10.0	1.500	T	16/01/2012	1.04%
4.78%	Britannia B/S	1.5	1.000	T	21/10/2011	0.84%
7.16%	Clydesdale Bank	5.0	1.500	T	11/11/2011	0.75%
7.16%	Coventry	1.5	1.500	T	14/10/2011	0.75%
4.78%	Leeds B/S	1.5	1.000	T	05/01/2012	0.96%
7.16%	Nationwide B/S	1.5	1.500	T	14/10/2011	0.75%
7.16%	Nottingham B/S	1.5	1.500	T	30/12/2011	1.80%
7.16%	West Bromwich B/S	1.5	1.500	T	14/10/2011	0.85%
7.16%	Principality B/S	1.5	1.500	T	18/10/2011	0.82%
			<u>20.945</u>			

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



REPORT REFERENCE NO.	RC/11/10
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	19 OCTOBER 2011
SUBJECT OF REPORT	FINANCIAL PERFORMANCE REPORT 2011-2012 – QUARTER 2
LEAD OFFICER	TREASURER
RECOMMENDATIONS	<p>(a) <i>That the monitoring position in relation to projected spending against the 2011-2012 revenue and capital budgets be noted;</i></p> <p>(b) <i>That the performance against the 2011-2012 financial targets be noted;</i></p> <p>(c) <i>That the proposal to write-off an outstanding debt for £34,947, as outlined in paragraph 13 of this report, be approved.</i></p>
EXECUTIVE SUMMARY	<p>This report provides the Committee with the second quarter performance against agreed financial targets for the current financial year.</p> <p>In particular, it provides a forecast of spending against the 2011-2012 revenue budget with explanations for the major variations. The latest forecast is that spending will be £0.701m less than budget, equivalent to 0.93% of the total budget.</p>
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Summary of Prudential Indicators 2011-2012.
LIST OF BACKGROUND PAPERS	Financial Performance Report 2011-12 Quarter 1-as reported to the meeting of Resources Committee on 22 July 2011 Report RC/11/8.

1. INTRODUCTION

1.1 This report provides the second quarterly financial monitoring report for the current financial year, based upon the position as at the end of September 2011. As well as providing projections of spending against the 2011-2012 revenue and capital budget, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators.

1.2 Table 1 below provides a summary of performance against the key financial targets.

TABLE 1 – FORECAST PERFORMANCE AGAINST KEY FINANCIAL TARGETS 2011-2012

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 2	Previous Quarter	Quarter 2 %	Previous Quarter %
1	Spending within agreed revenue budget	£75.141m	£74.440m	£74.824m	(0.93)%	(0.42)%
2	Spending within agreed capital budget	£7.268m	£6.115m	£5.781m	(15.87)%	(17.88)%
3	External Borrowing within Prudential Indicator limit	£31.154m	£29.899m	£29.899m	(4.20)%	(4.20)%
4	Budget Efficiency Savings in 2011-2012	£1.042m	£0.642m	£0.516m	61.61%	50.48%
5	Debt Ratio (debt charges over total revenue budget)	4.35%	4.27%	4.32%	(0.08)%	(0.03)%
6	General Reserve Balance as %age of total budget (minimum)	5.00%	5.93%	5.93%	(0.93)%	(0.93)%
			Actual as at 30 Sept 2011	Previous Quarter	Variance at 30 Sept 2011 %	Previous Quarter %
7	Aged Debt (debtors more than 85 days old)	5.00%	22.97%	18.68%	17.97%	13.68%

1.3 The remainder of the report is split into the three sections of:

- **SECTION A** – Revenue Budget 2010/2011.
- **SECTION B** – Capital Budget and Prudential Indicators 2010/2011.
- **SECTION C** – Other Financial Indicators.

1.4 Each of these sections provides a more detailed analysis of performance, including commentary relating to the major variances.

2. SECTION A - REVENUE BUDGET 2011-2012

2.1 Table 2 overleaf provides a summary of the forecast spending against all agreed subjective budget heads, e.g. employee costs, transport costs etc. This table indicates that spending will be £74.440m compared with an agreed budget figure of £75.141m, representing an underspend of £0.701m, equivalent to 0.93% of the total budget.

TABLE 2 – FORECAST REVENUE OUTTURN 2011-12

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY						
Revenue Budget Monitoring Report 2011/12						
Line No	SPENDING	2011/12 Budget £000 (1)	Year To Date Budget £000 (2)	Spending to Month 6 £000 (3)	Projected Outturn £000 (4)	Projected Variance over/ (under) £000 (5)
EMPLOYEE COSTS						
1	Wholetime uniform staff	31,948	15,989	16,197	32,127	179
2	Retained firefighters	11,965	5,567	5,034	11,770	(195)
3	Control room staff	1,947	969	1,038	2,079	132
4	Non uniformed staff	9,565	4,775	4,481	9,289	(276)
5	Training expenses	1,354	677	536	1,299	(55)
6	Fire Service Pensions recharge	1,999	1,166	1,349	1,969	(30)
		58,778	29,143	28,635	58,533	(245)
PREMISES RELATED COSTS						
7	Repair and maintenance	1,065	533	528	1,052	(13)
8	Energy costs	667	279	124	587	(80)
9	Cleaning costs	432	216	136	442	10
10	Rent and rates	1,476	738	868	1,506	30
		3,640	1,766	1,656	3,587	(53)
TRANSPORT RELATED COSTS						
11	Repair and maintenance	653	326	172	626	(27)
12	Running costs and insurances	1,196	669	560	1,133	(63)
13	Travel and subsistence	1,503	653	609	1,533	30
		3,352	1,648	1,341	3,292	(60)
SUPPLIES AND SERVICES						
14	Equipment and furniture	2,376	1,187	1,180	2,249	(127)
15	Hydrants-installation and maintenance	103	51	27	103	-
16	Communications	2,163	1,082	733	1,992	(171)
17	Uniforms	1,213	607	262	1,183	(30)
18	Catering	180	90	97	180	-
19	External Fees and Services	302	151	154	321	19
20	Partnerships & regional collaborative projects	91	46	34	91	-
		6,428	3,214	2,487	6,119	(309)
ESTABLISHMENT COSTS						
21	Printing, stationery and office expenses	428	232	142	394	(34)
22	Advertising	57	28	11	36	(21)
23	Insurances	326	273	151	326	-
		811	533	304	756	(55)
PAYMENTS TO OTHER AUTHORITIES						
24	Support service contracts	587	267	303	623	36
		587	267	303	623	36
CAPITAL FINANCING COSTS						
25	Capital charges	5,137	1,830	799	5,029	(108)
26	Revenue Contribution to Exeter Airport Site	750	0	0	750	-
27	Revenue Contribution to Capital spending	229	0	0	229	-
		6,116	1,830	799	6,008	(108)
28	TOTAL SPENDING	79,712	38,401	35,525	78,918	(794)
INCOME						
29	Treasury management investment income	(100)	(50)	(32)	(155)	(55)
30	Grants and Reimbursements	(3,052)	(1,526)	(1,593)	(2,920)	132
31	Other income	(1,351)	(675)	(661)	(1,337)	14
32	Internal Recharges	(68)	(34)	(29)	(66)	2
33	TOTAL INCOME	(4,571)	(2,285)	(2,315)	(4,478)	93
34	NET SPENDING	75,141	36,116	33,210	74,440	(701)

- 2.2 These forecasts are based upon the spending position at the end of September 2011, historical trends, and information from budget managers on known commitments. It should be noted that whilst every effort is made for projections to be as accurate as possible, some budget lines are susceptible to volatility in spending patterns during the year e.g. retained pay costs which are linked to activity levels, and it is inevitable therefore that final spending figures for the financial year will differ than those projected in this report. Explanations of the more significant variations from budget are explained below in paragraphs 3 to 8 below.

3. EMPLOYEE COSTS

Wholetime Staff

- 3.1 At this stage it is projected that spending on wholetime pay will be £0.179m more than the budget figure. This projection makes assumptions in relation to the timing of when officers will retire therefore generating vacancy savings during the course of the financial year.

Retained Pay Costs

- 3.2 Spending is forecast to be £0.195m under budget. In making this projection an assumption has been made that activity levels in the remainder of the financial year are consistent with the average for the same period for the last three financial years. It should be emphasised that by its very nature retained pay costs can be subject to significant variations e.g. volatility to spending caused from spate weather conditions.

Control Room Staff

- 3.3 It is forecast that control room staffing costs will be £0.132m more than budget as a result of the need to fund additional staffing to support the project to explore options for an alternative control room facility.

Non-Uniformed Staff

- 3.4 It is anticipated that savings of £0.276m will be achieved from this budget primarily as a result of management action to hold vacancies where possible.

4. PREMISES RELATED COSTS

Energy Costs

- 4.1 It is anticipated that energy costs will be £0.080m less than budget primarily as a result of the impact of carbon management initiatives introduced during 2010 to monitor and reduce usage e.g. installation of smart meters into fire stations.

5. TRANSPORT RELATED COSTS

Running Costs

- 5.1 Based upon spending so far it is forecast that fuel costs will be under budget by 0.063m. This position could very well change during the year subject to the volatility of fuel prices.

6. SUPPLIES AND SERVICES

Equipment and Furniture

- 6.1 It is forecast that spending against this budget line will be £0.127m less than budget primarily as a result of budget holders restricting spending in this area to essential items only.

Communications Equipment

6.2 It is projected that costs relating to the new Firelink radio system will be £0.137m less than had originally been anticipated. It should be noted that, given that this cost is funded from CLG New Burden Grant income, there will also be an offsetting reduction in grant income (Table 2 line 30).

7. CAPITAL FINANCING COSTS

Capital Charges

7.1 As a result of slippage in spending against the capital programme, and savings on leasing costs, it is forecast that the capital financing costs will be £0.108m less than budget.

8. INCOME

Treasury Management Investment Income

8.1 At this stage it is anticipated that the target for investment income will be overachieved by £0.055m. This results from a better than forecast cash position in the first half of the financial year.

9. DELIVERY OF SAVINGS IN 2011-12

9.1 As part of the budget setting process in 2011-12 the authority agreed that £1.042m of targeted savings should be found. Progress against these savings requirements are shown below in Table 4.

TABLE 4 – DELIVERY OF BUDGET SAVINGS 2011-12

		Targeted savings required by 31/3/12	Actual to end August 2011
		£000	£000
1	Vacancy Management	(425)	(191)
2	Efficiency savings identified by budget holders	(342)	(342)
3	Dissolution of regional management board	(25)	(25)
4	Restructure of SMB 2010	(50)	(50)
5	Changes to mobilisation arrangements to co-responder calls	(50)	-
6	Changes to mobilisation arrangements to automatic fire alarm calls	(25)	-
7	Share management support/back office functions	(25)	-
8	Surplus income from commercial arm	(100)	(34)
	TOTAL	(1042)	(642)

9.2 Based on the savings so far achieved the Service can be confident that the target of £1.042m will be overachieved by the year-end.

10. RESERVES AND PROVISIONS

10.1 As well as the funds available to the authority by setting an annual budget, the Authority also holds reserve and provision balances.

Reserves

10.2 There two types of Reserves held by the Authority:

Earmarked Reserves – these reserves are held to fund a **specific** purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

General Reserve – usage from this Reserve is **non-specific** and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

Provisions

10.3 In addition to reserves the Authority may also hold provisions which can be defined as:

Provisions – a Provision is held to provide funding for a liability or loss that is known with some certainty will occur in the future, but the timing and amount is less certain.

10.4 A summary of predicted balances on Reserves and Provisions is shown in Table 5 below. These figures exclude any potential in-year transfers to/from the revenue budget in the current financial year.

TABLE 5 – ESTIMATED RESERVE AND PROVISION BALANCES AS AT 31 MARCH 2012

	Balance as at 1 April 2011 £000	Spending to Quarter 2 2011 £000	Projected Outturn £000	Projected Balance as at 31 March 2012 £000	
RESERVES					
Earmarked reserves					
Lundy Island Fire Cover	25	-	-	25	
Positive pressure ventilation training	4	-	4	0	
Mobilisation equipment	167	113	167	0	
Property works	55	45	55	0	
Support costs	7	-	7	0	
Welfare building works	37	-	37	0	
Integrated clothing project	488	358	488	0	
Change & improvement training	50	7	50	0	
Gold command courses	35	6	35	0	
Interagency liaison officer costs	36	12	36	0	
Grants unapplied in 2010-11	1,374	324	964	410	
Change & improvement programme	896	-	896	0	
CSR 2010	1,191	-	-	1,191	
Total earmarked reserves	4,365	865	2,739	1,626	
General reserve					
General fund balance	4,453			4,453	
Percentage of general reserve compared to net budget					5.93%
TOTAL RESERVE BALANCES	8,818			6,079	
PROVISIONS					
Part time workers - retained fire fighters	1,505	-	643	862	
TOTAL PROVISIONS	1,505	-	643	862	

11. SUMMARY OF REVENUE SPENDING

11.1 Whilst there are still six months of the financial year to go it is pleasing that spending to date would indicate that the Authority will be delivering an underspend against its total revenue budget.

11.2 At this stage there are no recommendations contained within this report as to how the forecast underspend will be utilised. Further updates on the predicted outturn will be presented to future meetings of the Resources Committee together with any proposed actions in relation to significant variations to budgets. In the meantime officers of the Authority will continue to carry out robust monitoring of spending in the remainder of the financial year.

12. SECTION B – CAPITAL PROGRAMME 2011-2012 AND PRUDENTIAL INDICATORS

Monitoring of Capital Spending in 2011-2012

12.1 Table 6 overleaf provides a summary of forecast spending against the agreed 2011-2012 capital programme. Latest projection is for capital spending to be £6.115m against a total programme of £7.268m, resulting in slippage in spending of £1.153m. It should be noted that the total programme has increased by £0.228m from the previous report, to include:

- a. Inclusion of £0.180m to fund the purchase of the ICT solution “Middleware” to enable more efficient access and integration of data, as approved at the last Resources Committee meeting held on the 22 July 2011 (minute RC/6 refers).
- b. A further £0.048m to fund a number of capital items to be funded from revenue contributions to capital.

12.2 As these additional spending items are to be funded from revenue contributions, there is no increase in the external borrowing requirement as a result of this spending.

TABLE 6 – CAPITAL SPENDING 2011-12

Capital Programme (2011/12 to 2013/14)						
Item	PROJECT	2011/12 £000	2011/12 £000	2011/12 £000	2012/13 £000	2013/14 £000
		Budget	Predicted outturn	Variation to budget	Budget	Budget
	Estate Development					
1	Exeter Middlemoor	30	30	0		
2	Exeter Danes Castle	10	10	0		
3	SHQ major building works	96	96	0		
4	Major building works - training facilities at Exeter airport	1,000	796	(204)	2,000	
5	Minor improvements & structural maintenance (including slippage)	3,356	2,415	(941)	1,650	1,750
6	Welfare facilities	37	37	0		
7	New Dimensions (USAR) works	560	552	(8)		
	Estates Sub Total	5,089	3,936	(1,153)	3,650	1,750
	Fleet & Equipment					
8	Appliance replacement	397	397	0	1,400	1,700
9	Specialist Operational Vehicles	1,315	1,315	0		
10	Vehicles (funded from revenue)	31	31	0		
11	Equipment	127	127	0	200	200
12	Asset Management Plan (Miquest) software	129	129	0		
13	Systems integration	180	180	0		
	Fleet & Equipment Sub Total	2,179	2,179	0	1,600	1,900
	Overall Capital Totals	7,268	6,115	(1,153)	5,250	3,650
	Programme funding					
	Main programme	3,757	2,604	(1,153)	4,500	3,650
	Revenue funds	1,030	1,030	0	750	0
	Grants	2,481	2,481	0	0	0
		7,268	6,115	(1,153)	5,250	3,650

12.3 Table 6 also details how predicted spending of £6.115m is to be financed. The estimated slippage in spending will result in a reduction in the need to borrow in the year, resulting in revenue savings on debt charges.

Prudential Indicators (including Treasury Management)

12.4 As a consequence of slippage against the current year capital programme there will be no breach of any of the Authority Prudential Indicators. Actual external borrowing as at 30 September 2011 is £27.909m, forecasting to increase to £29.899m by 31 March 2011, as a result of the need to borrow later in the year. This borrowing level is well below the Authorised Limit for external debt of £38.159m (the absolute maximum the Authority has agreed as affordable).

- 12.5 Income from the investment of working balances into short-term deposits is forecast to yield £0.155m, which exceeds the targeted figure of £0.100m. This is primarily as a consequence of higher levels of working balances being available for investment than anticipated. To date, investment returns have yielded an average return of 0.82%, which out performs the LIBID 3 Month return (industry benchmark) of 0.72% for the same period.
- 12.6 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2011-2012.

13. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

- 13.1 Total debtor invoices outstanding as at 30 September 2011 is £253,474, an improvement on the previous quarter figure of £336,910.
- 13.2 Of this figure an amount of £58,231 (£62,910 as at 30 June 2011) was due from debtors relating to invoices that are more than 85 days old, equating to 22.97% (18.68% as at 31 June 2011) of the total debt outstanding. Table 7 below provides a summary of all debt outstanding as at 30 September 2011.

TABLE 7- OUTSTANDING DEBT AS AT 30 SEPTEMBER 2011

	Total Value £	%
Current (allowed 28 days in which to pay invoice)	57,743	22.78%
1 to 28 days overdue	136,191	53.73%
29-56 days overdue	1,309	0.52%
57-84 days overdue	-	-
Over 85 days overdue	58,231	22.97%
Total Debt Outstanding as at 30 September 2011	253,474	100.00%

Proposal for Debt Write-off

- 13.3 The total debt figure of £253,474 is net of a specific debt of £34,974 from Debtor X which, following legal advice, is now proposed to be written-off as not recoverable.
- 13.4 This particular debt is a long standing one relating to the delivery of a number of training courses to Debtor X between March and September 2009, total value of £36,974. Following the non-payment of debts within the agreed terms, debt recovery procedures were commenced by the Risk and Insurance Officer in October 2009. Legal advice was also sought.
- 13.5 This action resulted in the Service obtaining a court judgement against Debtor X for the total amount, and they were in the process of taking enforcement action with the High Court Enforcement Officer when the company went into liquidation. A payment of £2,000 had been made reducing the debt to £34,974 but no more was received.

- 13.6 The Insolvency Service had reported that Debtor X had no assets, but the Authority legal adviser in this matter persuaded the Insolvency Service to also investigate a new company that had been created by former employees of Debtor X. The outcome of these further investigations by the Insolvency Service, however, is that there are no assets with which they would be able to pay a dividend to the various creditors.
- 13.7 Given this latest position, the Service legal adviser in this matter has advised that there are no further avenues that can be pursued to recover the debt.
- 13.8 In light of the position as outline above, it is proposed that there remains no other course of action other than to write off the outstanding debt. The Authority's Financial Regulations (Regulation D6) require that any proposal for debt write-off in excess of £10,000 is approved by the Resources Committee. This proposal is therefore included within this report for consideration and approval.

Payment of Supplier Invoices within 30 days

- 13.9 The Authority attempts to pay its suppliers promptly. The target is that 98% of invoices should be paid within 30 days (or other agreed credit terms). At the end of September 2011, performance stood at 97.9% but it should be possible to achieve the target by the end of the financial year.

KEVIN WOODWARD
Treasurer to the Authority

PRUDENTIAL INDICATORS 2011-2012

Prudential Indicators and Treasury Management Indicators	Forecast £m	Target £m	Variance (favourable) /adverse
Capital Expenditure	6.115	7.268	(£1.153m)
Capital Financing Requirement (CFR) - Total	31.512	33.039	(£1.527m)
- Borrowing	29.899	31.154	
- Other long term liabilities	1.613	1.885	
Authorised limit for external debt - Total	31.512	38.159	(£6.647m)
- Borrowing	29.899	36.229	
- Other long term liabilities	1.613	1.930	
Investment Income – full year	0.155	0.100	(£0.055m)
Cost of Borrowing – Total	1.234	1.271	(£0.037m)
- Interest on existing debt as at 31-3-11	1.195	1.195	
- Interest on proposed new debt in 2011-12	0.39	0.076	
	Actual (30 Sept 2011) %	Target for quarter %	Variance (favourable) /adverse
Investment Return	0.82%	0.72%	(0.10) bp

Prudential Indicators and Treasury Management Indicators	Forecast (31 March 2012) %	Target Upper limit %	Target Lower limit %	Variance (favourable) /adverse %
Limit of fixed interest rates based on net debt	100.00%	100.00%	70.00%	0.00%
Limit of variable interest rates based on net debt	0.00%	30.00%	0.00%	(30.00%)
Maturity structure of borrowing limits				
Under 12 months	5.39%	30.00%	0.00%	(24.61%)
12 months to 2 years	6.64%	30.00%	0.00%	(23.36%)
2 years to 5 years	4.28%	50.00%	0.00%	(45.72%)
5 years to 10 years	1.75%	75.00%	0.00%	(73.25%)
10 years and above	81.95%	100.00%	50.00%	(18.05%)

DEVON & SOMERSET FIRE & RESCUE AUTHORITY



REPORT REFERENCE NO.	RC/11/11
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	19 OCTOBER 2011
SUBJECT OF REPORT	CONSULTATION ON THE DISTRIBUTION OF FIRE CAPITAL GRANT
LEAD OFFICER	TREASURER
RECOMMENDATIONS	<i>that, subject to incorporation of any comments made at the meeting, the Treasurer be authorised to respond on behalf of the Authority to the Department for Communities and Local Government (DCLG) consultation on the distribution of fire capital grant along the lines as set out in Appendix A to this report.</i>
EXECUTIVE SUMMARY	The Department for Communities and Local Government issued a consultation document recently in relation to proposals for the basis of distributing fire capital grant of £70m per annum for the three years 2012/2013 and 2014/2015. A draft response to the consultation is contained within Appendix A to this report for consideration.
RESOURCE IMPLICATIONS	As indicated.
EQUALITY IMPACT ASSESSMENT	Not applicable.
APPENDICES	Appendix A – DSFRA draft response to the consultation on the distribution of Fire Capital Grant.
LIST OF BACKGROUND PAPERS	Minute DSFRA/34 – meeting held on 29 September 2011 – refers.

Gayle Springett
Department for Communities and Local Government
Zone 3/E2, Eland House
1/F1 Ashdowne House
Ressenden Place
LONDON SW1E 5DU

Dear Madam,

**DISTRIBUTION OF FIRE CAPITAL GRANT - RESPONSE FROM THE DEVON AND SOMERSET
FIRE AND RESCUE AUTHORITY**

I refer to the recent consultation document issued by your department, in relation to proposals for the basis of distributing fire capital grant of £70m per annum for the three years 2012/2013 and 2014/2015, and am writing on behalf of Devon and Somerset FRA, to provide comments on the proposals, including responses to the specific questions raised.

General Comments

Firstly, the Authority welcomes the fact that the department have been successful in obtaining this grant on behalf of the sector at a time when other capital grants for local authorities have been reduced or removed. It is very much hoped that the CLG will be in a position to allocate similar capital grant funding as part of the next CSR announcement and beyond.

As the department will be well aware, it is of serious concern to the Fire Service that a lack of adequate capital funding in the past has severely compromised its ability to modernise the Service, including new demands placed upon it from issues such as compliance with equality and diversity legislation, and the enthusiasm to provide community facilities. These issues, in addition to the significant backlog in capital improvement works required to the existing estates infrastructure to make them 'fit for purpose' has been highlighted on numerous occasions, including submissions to the CLG from the Fire Service Expenditure Group. The continuation of this grant will be of significant importance if we are to address some of these issues, whilst also looking for more innovative ways of funding future programmes.

I provide below responses on behalf of the Authority to the seven specific questions in the consultation document, however first I provide some general comments in response to the document.

In relation to the key proposal to ring-fence an element of the £70m to an efficiency fund to be subject to a bidding process, this is not something that this Authority supports and believes that the total sum of £70m per annum should continue to be distributed by way of a distribution formula. The key reasons for not supporting a bidding process are:

- 1) In accordance with the key principles of localism we believe that FRSs should be given the financial freedoms to deliver their own local agendas and make timely invest-to-save decisions to drive efficiency and service improvement aligned to their IRMPs. To introduce a bidding process around an efficiency fund would seem to be inconsistent with the localism agenda.
- 2) Given that the timetable to complete capital projects tends to span over a number of years we believe that to allocate all of the £70m per annum for the next three years by way of a pro-rata formula will give FRSs the certainty around capital funding that will be of great assistance to medium term capital planning. An annual bidding process would work counter to this position and only add to uncertainty over future funding streams.
- 3) The introduction of a bidding process will introduce another layer of administration and bureaucracy to FRSs which would be unwelcome at a time where our resources are already being stretched by the current change and improvement programme.

In reviewing the way that this grant is allocated we would also seek a more equitable distribution of the grant amongst FRAs. We do not feel that the current model used to distribute the total grant available, by way of population, is a fair system as it does not reflect the real capital investment needs of FRAs. For instance, under the current distribution methodology Tyne and Wear FRA attracts a grant of £1.5m and yet it only has 17 fire stations (£89k per station), compared to the £2m grant of Devon and Somerset with 85 stations (£24k per station). Similarly, Hampshire and Essex FRAs receive more grant than Devon and Somerset and yet those FRAs have 40% less fire stations to maintain and eventually replace. As an FRA with a number of fire stations and appliances only second to London Fire (£7m grant), we do not feel that the current distribution methodology provides a fair system. We would like to see the distribution model changed to take into account the number of fire stations and appliances, rather than an arbitrary population method which does not adequately reflect capital investment needs.

Comments relating to specific questions raised.

Q1 - Do you have a view about the proportion of funding that ought to be available for distribution versus the proportion of funding that ought to be available to bid against?

We believe that 100% of funding should be available for distribution by the pro-rata methodology currently applied.

Q2 – What are your views on our proposal of one bidding round?

Given that capital projects tend to span more than just one financial year we would be more supportive of one bidding round. This would also reduce the administrative effort required both locally and nationally.

However in the first instance we would want to see two bidding rounds to give those FRSs unable to put a successful bid in by December 2011, another opportunity.

Q3 – If there is one round, are you content that we should reserve the option for a second round if there are significant under allocations?

Yes.

Q4 – As an alternative to one bidding round do you think a bidding round for each year would be better? And if so why?

No, capital projects tend to span more than one year and need a bidding round spanning more than one year. It also adds to the administrative effort needed.

Q5 – Do you think that these are the right criteria for assessing bids for Capital Grant Funding? If not, what would your proposals be?

In principle, we would agree that the right criteria is being suggested, however the formula proposed would suggest that only those projects that can demonstrate the delivery of significant cashable benefits will win through. We would rather see a process that offers all FRSs, however small, access to a proportionate amount to the grant available. We would not want the system to become similar to PFI whereby only a small number of FRSs benefited from the funding pot.

Q6 – Do you agree with the approach on accountability and monitoring?

Yes we agree with the approach suggested.

Q7 – How do you think best practice could be shared with the rest of the fire and rescue service?

We believe that the Chief Fire Officers Association is best placed to hold a database of case studies, which could be used to help to inform and help with the formation of successful bids.

Yours faithfully

Kevin Woodward
Treasurer to Devon and Somerset Fire and Rescue Authority



DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	RC/11/12
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	19 OCTOBER 2011
SUBJECT OF REPORT	CONSULTATION ON THE PROPOSALS FOR BUSINESS RATES RETENTION
LEAD OFFICER	TREASURER
RECOMMENDATIONS	<i>That, subject to incorporation of any comments made at the meeting, the Treasurer be authorised to respond on behalf of the Authority to the Department for Communities and Local Government (CLG) consultation on local government resource review for business rates retention along the lines as set out in Appendix A to this report.</i>
EXECUTIVE SUMMARY	The Department for Communities and Local Government issued a consultation document entitled "Local Government Resource Review for Business Rates Retention".
RESOURCE IMPLICATIONS	As indicated.
EQUALITY IMPACT ASSESSMENT	Not applicable.
APPENDICES	Appendix A – DSFRA draft letter of response to the consultation on the proposals for business rates retention. Annex A to this letter covers responses to the more detailed questions included in the technical papers and this document is TO FOLLOW in due course.
LIST OF BACKGROUND PAPERS	Minute DSFRA/34 – meeting held on 29 September 2011 – refers.

Joel Winstone
Department for Communities and Local Government
Zone 5/D1, Eland House
Bressenden Place
LONDON SW1E 5DU

Dear Sir,

PROPOSALS FOR BUSINESS RATES RETENTION - RESPONSE FROM DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY

I refer to the recent consultation document *Local Government Resource Review for Business Rates Retention* and submit a response to the proposals outlined in that document on behalf of Devon and Somerset Fire and Rescue Authority.

I include as Annex A to this letter responses to the more detailed questions included in the technical papers, and provide below more general comments relating to the key proposals and how they may impact on a fire and rescue authority,

General Comments

Firstly, the Authority welcomes the fact that the government is taking the opportunity to replace the current system of formula grant distribution, which is seen as too complex, lacking in transparency and in many parts subject to challenge as being inequitable and unfair. The Authority also supports the main concept of the new proposals, in that it will provide much more of an incentive for authorities to stimulate local business growth.

As a fire and rescue authority however our position is different to that of a principal authority as we do not collect business rates, and have very little influence in terms of stimulating local growth. We are therefore particularly interested in responding to *Technical Paper 3 - Non-billing Authorities*, which outlines proposals on how fire and rescue authorities will be funded under the new system.

The key question being asked of fire and rescue authorities within Technical Paper 3 is:

TP3 Q4: Do you think that single purpose fire and rescue authorities should be funded:

- a) *Through a percentage share of each district council's billing authority business rates baseline (pre-tier split), subject to any tariff or top up required to bring them to their baseline funding level; or*
- b) *Through fixed funding allocations for 2013-14 and 2014-15, through an adjustment to the forecast national business rates?*

Authority Response to TP3 Q4.

It is the view of this Authority that, on balance, single purpose fire and rescue authorities should be funded by the option outlined in b) above, i.e. that they are excluded from the percentage sharing and have their funding fixed for 2013-14 and 2014-15. The reasons behind this response are:

- 1) As is highlighted in the consultation document fire and rescue authorities, like police authorities, have more limited levers to promote economic than the principal authorities, and it is therefore questionable whether they should share in any increased business rates. Given that the government has already decided that police authorities are to be outside of the new system we believe that this should also be applied to single purpose fire and rescue authorities.
- 2) The CSR 2010 announcement has back-loaded the 25% reductions to fire formula grant to years 2013-14 and 2014-15. This puts fire and rescue authorities in a different place when compared to the principal authorities in terms of planning for the delivery of savings. Whilst we do not know the impact at FRA level of the grant reductions still to come, planning is well advanced based upon the percentage reductions included in CSR 2010. We believe that to include single purpose fire and rescue authorities in the new business rates system will add another layer of uncertainty into financial planning which would be unhelpful.
- 3) The 8 technical papers included in the consultation provide the more detailed information on how the new system will operate and asks authorities for views on a range questions including **Establishing the Baseline, Measuring Business Rates, Tariff, Top Up and Levy Options**, and **Volatility**. It is evident from reading these details, which in many cases are extremely complex, that it is impossible for the Authority to assess what the financial impact will be if it is included in the new system This is exacerbated by the fact that business rates are collected by a number of billing authorities (15 for Devon and Somerset FRA) in their area, which creates a further complexity as no doubt those billing authorities will include a mix of **tariff** and **top up** authorities, which will need to be consolidated.
- 4) The consultation document indicates that if single purpose FRAs are not to be included in the new system from 2013-14, then it may be considered for inclusion from 2015-16, as part of a government review of how fire and rescue authorities are to be funded from 2015-16. With this in mind we believe that it would be helpful for FRAs to consider joining the system from 2015-16, when a more informed decision can be made as to the impact at authority level

Other General Comments

Whilst we recognise that whilst the early years will include safeguards to protect those areas that have low growth and therefore low increase in business rates, we are concerned that in future years those areas could become the significant “losers” from the system, to the benefit of the more affluent areas with much more ability to stimulate growth. As those areas are likely to also be more associated with higher levels of deprivation this could lead to an increase in demand in fire and rescue services.

We are concerned as to the impact of the new arrangements on Fire Revenue Grants such as that paid to fund New Dimensions. We would want assurances that this funding remains in the Fire Sector to continue to fund the national resilience programme.

We are concerned that entry into the system will bring about increased exposure to risk around the collection of business rate income. Currently the risk of “bad payers” is borne by the government and the deficit has in the past been up to £2bn. We would want to seek assurances that this risk is not passed onto local government at a time when they are already facing serious financial challenges.

Summary

The Authority welcomes the opportunity to respond to the consultation document and asks that the views expressed within this response are considered in your final deliberations of how single purpose fire and rescue authorities are to be treated in the new system.

Yours faithfully

Kevin Woodward
Treasurer to Devon and Somerset Fire and Rescue Authority