M. Pearson
CLERK TO THE AUTHORITY

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

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Your ref :	SS/SY/RC/Feb 2012	Date :	26 January 2012	Telephone :	01392 872200
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RESOURCES COMMITTEE

(Devon and Somerset Fire and Rescue Authority)

Friday 3 February 2012

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

A G E N D A

1. **Apologies**

2. **Minutes** of the meeting held on 19 October 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**

   Report of the Treasurer to the Authority (RC/12/1) **TO FOLLOW**.

6. **Financial Performance Report 2011/12 - Quarter 3**

Report of the Treasurer to the Authority (RC/12/2) attached (page 4)

7. **2012/13 Revenue Budget and Council Tax Level**

Report of the Treasurer and Chief Fire Officer (RC/12/3) attached (page 16)

8. **Capital Programme 2012/13 to 2014/15**

Report of the Director of Service Support and Treasurer (RC/12/4) attached (page 33)

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), Bakewell MBE, Horsfall, Hughes OBE, Smith, Woodman and Yeomans

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)

19 October 2011

Present:-

Councillors Gordon (Chairman), Bakewell MBE, Hughes OBE, Woodman and Yeomans

Apologies:-

Councillor Smith

In attendance:-

Adam Burleton – SECTOR (Treasury Management Performance only)

***RC/7. Minutes.**

RESOLVED that the Minutes of the meeting held on 22 July 2011 be signed as a correct record.

***RC/8. 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 to declare any such interests at this time.

No interests were declared.

RC/9. Treasury Management Performance 2011/12 (to September 2011)

The Committee considered a report of the Treasurer (RC/11/9) 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 2011/12 (to September 2011). 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 none of the 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 still low as a consequence of the fall in interest rates, the Authority was still achieving returns above the LIBID 3 month rate, which was the appropriate benchmark for this type of short-term investments.

RESOLVED that the performance in relation to the treasury management activities of the Authority for 2011/2012 (to September 2011) be commended to the Devon and Somerset Fire and Rescue Authority.

***RC/10.** **Financial Performance Report 2011/12 - Quarter 2**

The Committee considered a report of the Treasurer (RC/11/10) on the performance of the Authority for the second quarter of the current financial year (2011/12) 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 £0.701m (0.93%) on the approved budget was projected. The projection was based on the spending position as at the end of September 2011, historical trends, information from budget managers and known commitments. It was highlighted that there were three elements that had contributed, amongst others, to the variation, notably:

- an increase in the forecast underspend on retained pay costs (which was now more reliable given the existence of 6 months of data);
- an underspend of £100,000 on equipment and furniture as a result of management action to reduce spending in this area, and;
- a higher than expected income from treasury management activities and lower debt charges in respect of capital projects.

The report also detailed the position 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. The Capital Programme was currently £7.268million but the anticipated spend against this for 2011/12 was £6.115million resulting in slippage in spend of £1.153million.

The report also identified issues in relation to outstanding debt and approval was sought to write off a long standing unpaid debt in the sum of £34,974 from Debtor X. The Committee expressed the view that this debtor should be identified in the public interest, particularly since the debt recovery process had been completed and the debtor had gone into liquidation with no assets available to repay the outstanding debt. The Clerk advised that since this process had been completed, the debtor could be identified although any cases still in the process of recovery should not be identified until any proceedings had been completed. The Treasurer identified the debtor in this case as Plymouth Maritime Training Limited (also trading as Maritime Training (Plymouth) Limited. He added that procedures had been tightened, which included the introduction of credit rating checks on customers. Assurance was also sought as to whether on the cost of debt collection was proportionate to the level of debt. The Treasurer undertook to provide a response on the latter point at a future date.

RESOLVED

(a) That the monitoring position in relation to projected spending against the 2011-2012 revenue and capital budgets be noted;

(b) That the performance against the 2011-2012 financial targets be noted;

(c) That the proposal to write-off an outstanding debt for £34,947, as outlined in paragraph 13 of report RC/11/10, be approved.

***RC/11. Consultation on the Distribution of Fire Capital Grant**

The Committee considered a report of the Treasurer (RC/11/11) that set out details of a consultation exercise conducted by the Department for Communities and Local Government (CLG) in respect of the distribution of Fire Capital Grant of £70 million over the next three years.

The Treasurer advised that the consultation document contained a proposal for the instigation of a ring fenced efficiency fund for capital grant distribution against which Services had to bid for funding. He indicated that the continuation of a distribution model based on a formula, preferably taking into account the number of fire stations and appliances held by the Service, would be more beneficial as this would give more stability and certainty for planning purposes in the future. It would also enable the Service to meet its ongoing responsibilities in terms of compliance with equality and diversity legislation and to continue to consider the provision of community facilities.

It was noted that the majority of fire and rescue services were adopting the same stance as Devon and Somerset in respect of their response to this consultation.

RESOLVED that the Treasurer be authorised to respond on behalf of the Authority to the Department for Communities and Local Government (CLG) consultation on the distribution of fire capital grant on the basis of the response as set out in Appendix A to report RC/11/11.

***RC/12. Consultation on the Proposals for Business Rates Retention**

The Committee considered a report of the Treasurer (RC/11/12) that detailed the consultation exercise conducted by the Department of Communities and Local Government (CLG) in respect of the local government resources review for business rates retention.

The Treasurer stated that the Government was taking the opportunity to replace the existing system of formula grant distribution with a proposal to allow the retention of business rates by local authorities which was a very complex matter. He advised that he did not feel it was the right time for the Fire and Rescue Authority to be part of this system as it did had little influence over business growth and did not collect business rates either. There may be an option for the Authority to reconsider this position in 2015/16, which he indicated could be a more pertinent opportunity at that stage.

In considering this matter, the Committee expressed the view that it was difficult to see how this proposal could work for fire and rescue services and therefore, the stance of "opting out" was supported.

RESOLVED that the Treasurer be authorised to respond on behalf of the Authority to the Department for Communities and Local Government (CLG) consultation on the local government resource review for business rates retention on the basis of the response as set out in Appendix A to report RC/11/12.

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

The meeting started at 10.00hours and finished at 10.55hours

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/12/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**3 FEBRUARY 2012**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2011-2012 – QUARTER 3**
LEAD OFFICER	**Treasurer to the Authority**
RECOMMENDATIONS	***(a) That it be recommended to the Devon and Somerset Fire and Rescue Authority that the budget virements outlined in paragraph 10.1 of report RC/12/1 be approved;*** ***(b) That, subject to (a) above, the monitoring position in relation to projected spending against the 2011-2012 revenue and capital budgets be noted;*** **(c)** ***That the performance against the 2011-2012 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the third quarter performance against agreed financial targets for the current financial year. 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 £0.951m less than budget (compared to £0.701m at Quarter 2).
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 2- as reported to the meeting of Resources Committee on 19 October 2011 Report RC/11/10.

1. INTRODUCTION

1.1 This report provides the third quarterly financial monitoring report for the current financial year, based upon the spending position as at the end of December 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 3 %	Previous Quarter %	Quarter 3 %	Previous Quarter %
1	Spending within agreed revenue budget	£75.141m	£74.190m	£74.440m	(1.26)%	(0.93)%
2	Spending within agreed capital budget	£7.371m	£4.068m	£6.115m	(44.81)%	(15.87)%
3	External Borrowing within Prudential Indicator limit	£31.154m	£27.066m	£29.899m	(13.12)%	(4.20)%
4	Budget Efficiency Savings in 2011-2012	£1.042m	£1.139m	£0.642m	109.31%	61.61%
5	Debt Ratio (debt charges over total revenue budget)	4.35%	4.14%	4.27%	(0.21)bp	(0.08)bp
6	General Reserve Balance as %age of total budget (minimum)	5.00%	5.93%	5.93%	(0.93)bp	(0.93)bp
			Actual as at 31 Dec 2011 %	**Previous Quarter %**	**Variance at 31 Dec 2011 %**	**Previous Quarter %**
7	Aged Debt (debtors more than 85 days old)	5.00%	14.97%	22.97%	9.97%	17.97%

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.

1.3 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 £74.190m compared with an agreed budget figure of £75.141m, representing an underspend of £0.951m, equivalent to 1.26% of the total budget (compared with a forecast underspend of £0.701m as at Quarter 2).

TABLE 2 – FORECAST REVENUE OUTTURN 2011-12

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY

Revenue Budget Monitoring Report 2011/12

Line No		2011/12 Budget £000 (1)	Year To Date Budget £000 (2)	Spending to Month 9 £000 (3)	Projected Outturn £000 (4)	Projected Variance over/ (under) £000 (5)
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	32,115	23,993	24,295	32,378	263
2	Retained firefighters	11,934	8,538	7,842	11,694	(240)
3	Control room staff	1,948	1,510	1,544	2,526	578
4	Non uniformed staff	9,408	7,102	6,907	9,347	(61)
5	Training expenses	1,365	1,024	774	1,288	(77)
6	Fire Service Pensions recharge	1,999	1,666	1,807	1,916	(83)
		58,769	**43,833**	**43,169**	**59,149**	**380**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,067	801	926	1,123	56
8	Energy costs	663	442	228	430	(233)
9	Cleaning costs	432	324	229	395	(37)
10	Rent and rates	1,476	1,385	1,326	1,419	(57)
		3,638	**2,952**	**2,709**	**3,367**	**(271)**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	653	489	344	607	(46)
12	Running costs and insurances	1,196	898	771	1,161	(35)
13	Travel and subsistence	1,504	1,030	987	1,549	45
		3,353	**2,417**	**2,102**	**3,317**	**(36)**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,341	1,773	1,728	2,065	(276)
15	Hydrants-installation and maintenance	103	77	76	103	-
16	Communications	2,165	1,624	1,194	1,999	(166)
17	Uniforms	1,213	910	826	1,035	(178)
18	Catering	180	135	152	199	19
19	External Fees and Services	320	240	247	294	(26)
20	Partnerships & regional collaborative projects	106	79	69	106	-
		6,428	**4,838**	**4,292**	**5,801**	**(627)**
	ESTABLISHMENT COSTS					
21	Printing, stationery and office expenses	414	323	220	338	(76)
22	Advertising	57	43	27	31	(26)
23	Insurances	326	299	161	261	(65)
		797	**665**	**408**	**630**	**(167)**
	PAYMENTS TO OTHER AUTHORITIES					
24	Support service contracts	588	415	513	717	129
		588	**415**	**513**	**717**	**129**
	CAPITAL FINANCING COSTS					
25	Capital charges	4,868	2,553	2,321	4,826	(42)
26	Revenue Contribution to Capital spending	1,287	0	0	1,287	-
		6,155	**2,553**	**2,321**	**6,113**	**(42)**
27	**TOTAL SPENDING**	**79,728**	**57,673**	**55,514**	**79,094**	**(634)**
	INCOME					
28	Treasury management investment income	(100)	(75)	(96)	(193)	(93)
29	Grants and Reimbursements	(3,068)	(2,289)	(2,439)	(2,952)	116
30	Other income	(1,351)	(1,014)	(1,012)	(1,693)	(254)
31	Internal Recharges	(68)	(51)	(34)	(66)	2
32	**TOTAL INCOME**	**(4,587)**	**(3,429)**	**(3,581)**	**(4,904)**	**(229)**
33	**NET SPENDING**	**75,141**	**54,244**	**51,933**	**74,190**	**(951)**

2.2 These forecasts are based upon the spending position at the end of December 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 £0.263m more than the budget figure, equivalent to 0.82% of the total wholetime pay bill. 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 £0.240m 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 Spending against control room staffing is forecast to be £0.578m more than budget. This figure includes the one-off costs associated with the project to amalgamate the existing two control rooms into a single consolidated control room from April 2012 (Minute DSFR/51 of the Fire and Rescue Authority meeting held on the 7 November 2011 refers).

Non-Uniformed Staff

3.4 It is anticipated that savings of £0.061m will be achieved from this budget line, primarily from savings relating to the Senior Management Board restructure.

Training Expenses

3.5 As a consequence of slippage in the delivery of some training courses an underspend of £0.077m is forecast against training costs.

Firefighter Pension Costs

3.6 It is forecast that pension costs will be £0.083m less than budget as a result of fewer ill-health retirements than had been budgeted.

4. PREMISES RELATED COSTS

Energy Costs

4.1 It is anticipated that energy costs will be £0.233m less than budget as a consequence of less usage and the impact of new initiatives to monitor and reduce usage e.g. installation of smart meters into fire stations.

5. SUPPLIES AND SERVICES

Equipment and Furniture

5.1 It is forecast that spending against this budget line will be £0.276m less than budget primarily as a result of budget holders restricting spending in this area to essential items only.

Communications Equipment

5.2 It is projected that costs relating to the new Firelink radio system will be £0.166m less than had originally been anticipated. It should be noted however that this saving will be offset by a consequent reduction in grant funding from the CLG (Table 2 line 30).

Uniforms

5.3 It is anticipated that not all replacement uniforms committed for this financial year will be delivered by the year-end resulting in an estimated underspend of £0.178m. This sum is likely to be required to be carried forward into 2012-13 to fund the completion of undelivered orders.

6. ESTABLISHMENT COSTS

Printing and Stationery

6.1 Spending against this budget line is forecast to be £0.076m less than budget primarily as a consequence of budget holders restricting printing costs to essential items only.

Insurances

6.2 It is anticipated insurance costs will be £0.065m less than budget as a result of fewer claims against uninsured losses i.e. insurance excess payments.

7. PAYMENTS TO OTHER AUTHORITIES

External Support Services

7.1 Spending on this budget head is forecast to be £0.129m more than budget, primarily from additional Occupational Health Unit costs associated with the need to address a significant backlog of firefighter medical reviews and counselling requirements.

8. INCOME

Treasury Management Investment Income

8.1 It is anticipated that the target for investment income will be overachieved by £0.093m. This results from a better than forecast cash position and the achievement of better returns than budgeted.

Grants and Reimbursements

8.2 Whilst grant income from the CLG will be £0.166m less than forecast (see paragraph 5.2), this is partly offset through additional community safety partnership funding e.g. Job Centre Plus, Phoenix Courses and Road Safety Partnerships.

Other Income

8.3 It is forecast that other income targets will be overachieved by £0.254m, primarily as a result of the more commercial approach applied by the Training Academy in relation to the delivery of training courses to external clients.

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 3.

TABLE 3 – DELIVERY OF BUDGET SAVINGS 2011-12

		Targeted Savings required by 31/3/12 £000	Actual to end December 11 £000
1	Vacancy Management	(425)	(425)
2	Efficiency savings identified by budget holders	(342)	(342)
3	Dissolution of regional management board	(25)	(25)
4	Restructure of SMB 2010	(50)	(154)
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)	(193)
	TOTAL	***(1,042)***	***(1,139)***

9.2 These figures illustrate that whilst some targeted areas of savings have not delivered in 2011-12, the overall target has already been achieved by Quarter 3.

10. BUDGET VIREMENTS

10.1 Financial Regulations stipulate that in-year virements between subjective budget lines in excess of £50,000 require the approval of the Resources Committee, and the full Authority where the amount exceeds £150,000 (Regulations A19 and A20 refers). Table 4 overleaf provides details of two proposed virements, both of which exceed £150,000 in total, and therefore require the approval of the full Authority.

TABLE 4

Budget Line	From £m	To £m	Reason
Capital Charges (Table 2 Line 25) Revenue Contribution to Capital Spending (Table 2 Line 27)	(0.250) 	 0.250	It is estimated that savings of £0.292m will be achieved against the capital charges budget as a result of slippage in capital spending and savings on leasing costs. It is proposed that of this sum an amount of £0.250m is used as direct revenue funding to capital spending in 2011-12, therefore reducing our external borrowing requirement by the same amount.
Non uniformed staff (Table 2 Line 4) Wholetime uniformed staff (Table 2 line 1)	(0.172)	 0.172	The 2011/12 budget was set with a vacancy margin of £0.425m against the wholetime uniformed line. This virement realigns the budget to reflect that element relating to non-uniformed staff.

10.2 The impact of these virements has already been included in Table 2 on the basis that they are both approved.

11. RESERVES AND PROVISIONS

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

Reserves

11.2 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

11.3 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.

11.4 A summary of predicted balances on Reserves and Provisions is shown in Table 5 overleaf. 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

TABLE 5 - RESERVES AND PROVISIONS					
RESERVES	**Balance as at 1 April 2011 £000**	**Spending to Quarter 3 2011 £000**	**Projected Outturn £000**	**Projected Balance as at 31 March 2012 £000**	
Earmarked reserves					
Lundy Island Fire Cover	25	10	10	15	
Positive pressure ventilation training	4	-	4	0	
Mobilisation equipment	167	113	167	0	
Property works	55	55	55	0	
Support costs	7	-	-	7	
Welfare building works	37	37	37	0	
Integrated clothing project	488	488	488	0	
Change & improvement training	50	18	50	0	
Gold command courses	35	6	6	29	
Interagency liaison officer costs	36	22	36	0	
Grants unapplied in 2010-11	1,374	367	846	528	
Change & improvement programme	896	306	596	300	
CSR 2010	1,191	-	-	1,191	
Total earmarked reserves	**4,365**	**1,422**	**2,295**	**2,070**	
General reserve					
General fund balance	**4,453**			**4,453**	
Percentage of general reserve compared to net budget					5.93%
TOTAL RESERVE BALANCES	**8,818**			**6,523**	
PROVISIONS					
Part time workers - retained fire fighters	1,505	-	643	862	
TOTAL PROVISIONS	**1,505**	-	643	**862**	

12. SUMMARY OF REVENUE SPENDING

12.1 Whilst there are still three months of the financial year to go and the final position will inevitably change it is pleasing that spending to date would indicate that the Authority will be delivering an underpsend against its total revenue budget.

12.2 At the next meeting of this Committee, to be held in May 2012, in considering the draft outturn position for 2011-12, Members will be asked to make recommendations as to how the final underspend against the revenue budget is to be utilised.

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

Monitoring of Capital Spending in 2011-2012

13.1 Table 6 below provides a summary of forecast spending against the agreed 2011-2012 capital programme. Latest projection is for capital spending to be £4.068m against a total programme of £7.371m, resulting in slippage in spending of £3.303m, which, in the main, will be required to be carried forward into 2012-13 in order that committed schemes can be completed. It should be noted that the total programme has increased by £0.103m from the previous report, to include:

a. Inclusion of £0.050m to fund the additional works identified to the enhancement of the Urban Search and Rescue facility, to be funded from grant funding from the Department of Communities and Local Government (CLG).

b. A further £0.053m to fund a number of small vehicles and equipment items to be funded from revenue contributions to capital.

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

TABLE 6 – FORECAST CAPITAL SPENDING 2011-12

Capital Programme (2011/12)		2011/12 £000	2011/12 £000	2011/12 £000
Item	Project	Budget	Predicted outturn	Variation to budget
	Estate Development			
1	Exeter Middlemoor	30	30	0
2	Exeter Danes Castle	10	3	(7)
3	SHQ major building works	96	96	0
4	Major building works - training facilities at Exeter airport	1,000	196	(804)
5	Minor improvements & structural maintenance (including slippage)	3,356	1,806	(1,550)
6	Welfare facilities	37	37	0
7	New Dimensions (USAR) works	610	552	(58)
	Estates Sub Total	**5,139**	**2,720**	**(2,419)**
	Fleet & Equipment			
8	Appliance replacement	397	780	383
9	Specialist Operational Vehicles	1,315	177	(1,138)
10	Vehicles & equipment (funded from revenue)	84	84	0
11	Equipment	127	127	0
12	Asset Management Plan (Miquest) software	129	0	(129)
13	Systems integration	180	180	0
	Fleet & Equipment Sub Total	**2,232**	**1,348**	**(884)**
	Overall Capital Totals	**7,371**	**4,068**	**(3,303)**
	Programme funding			
	Main programme	3,507	204	(3,303)
	Revenue funds	1,333	1,333	0
	Grants	2,531	2,531	0
		7,371	**4,068**	**(3,303)**

13.3 Table 6 also illustrates how predicted spending of £4.068m is to be financed. As a consequence of the slippage in spending of £3.303m into 2012-13 the need to borrow externally in 2011-12 to fund capital spending has also slipped by the same amount. This will result in revenue savings on debt charges in 2011-12.

Prudential Indicators (including Treasury Management)

13.4 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 31 December 2011 is £27.909m, forecasting to reduce to £27.066m by 31 March 2012. This borrowing level is well below the Authorised Limit for external debt of £36.229m (the absolute maximum the Authority has agreed as affordable). It is not anticipated that further borrowing will be required in the remainder of the financial year.

13.5 Income from the investment of working balances into short-term deposits is forecast to yield £0.193m, 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 0.80%, which slightly under performs the LIBID 3 Month return (industry benchmark) of 0.89% for the same period.

13.6 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2011-2012.

14. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

14.1 Total debtor invoices outstanding as at 31 December 2011 is £298,939, an increase on the previous quarter figure of £253,474.

14.2 Of this figure an amount of £44,745 (£58,231 as at 30 September 2011) was due from debtors relating to invoices that are more than 85 days old, equating to 14.97% (22.97% as at 30 September 2011) of the total debt outstanding. Table 7 below provides a summary of all debt outstanding as at 31 December 2011.

TABLE 7– OUTSTANDING DEBT AS AT 31 DECEMBER 2011

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	116,293	38.90%
1 to 28 days overdue	76,365	25.55%
29-56 days overdue	61,349	20.52%
57-84 days overdue	187	0.06%
Over 85 days overdue	44,745	14.97%
Total Debt Outstanding as at 31 December 2011	**298,939**	**100.00%**

14.3 Whilst the ratio of debt over 85 days has reduced from the previous quarter it is still above the set target of 5%. It should be noted, however, that included in the debt figure over 85 days of £44,745 is a debt of £35,837 from one specific debtor (Lex Autolease).

14.4 Whilst this debtor is in dispute over elements of the debt, at this time there is no reason to suggest that this debt will not be paid. The Fleet Department are currently in discussions with them to secure payment as soon as possible, which may involve legal action.

Payment of Supplier Invoices within 30 days

14.5 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 December 2011 our performance stood at 97.9%, the same position as at 30 September 2011.

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	**4.068**	**7.371**	**(£3.303m)**
Capital Financing Requirement (CFR) - Total - Borrowing - Other long term liabilities	**27.960** 26.347 1.613	**33.039** 31.154 1.885	**(£5.079m)**
Authorised limit for external debt - Total - Borrowing - Other long term liabilities	**28.679** 27.066 1.613	**38.159** 36.229 1.930	**(£9.480m)**
Debt Ratio (debt charges as a %age of total revenue budget	**4.14%**	**4.35%**	**(0.21)bp**
Cost of Borrowing – Total -Interest on existing debt as at 31-3-11 -Interest on proposed new debt in 2011-12	**1.195** 1.195 0	**1.271** 1.195 0.076	**(£0.076m)**
Investment Income – full year	**0.193**	**0.100**	**(£0.093m)**
	Actual (31 Dec 2011) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.80%**	**0.89%**	**0.09 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/12/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**3 FEBRUARY 2012**
SUBJECT OF REPORT	**2012-2013 REVENUE BUDGET AND COUNCIL TAX LEVEL**
LEAD OFFICER	**Treasurer and Chief Fire Officer**
RECOMMENDATIONS	***That the Committee consider the contents of this report with a view to recommending to the budget meeting of the Devon and Somerset Fire and Rescue Authority on 17 February 2012 an appropriate level of revenue budget and council tax for 2012-13.***
EXECUTIVE SUMMARY	It is a legislative requirement that the Authority sets a level of revenue budget and council tax by the 1 March each year. This report includes four potential options (A to D) for revenue budget and council tax levels for 2012-13. The Committee is asked to consider the implications associated with each option, with a view to making a recommendation of one option to the full Authority budget meeting on 17 February 2012.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	No potentially negative impact sufficient enough to warrant a full impact assessment has been identified in the content of this report.
APPENDICES	A. Draft Revenue Budget 2012-2013. B. Precept Consultation Report (enclosed and page numbered separately).
LIST OF BACKGROUND PAPERS	Nil.

1. INTRODUCTION

1.1 It is a legislative requirement that the Authority sets a level of revenue budget and council tax for the forthcoming financial year, before 1 March, in order that it can inform each of the fifteen council tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2012-2013. 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 Localism Act 2011 includes new provisions which require an authority to hold a council tax referendum where an authority's council tax increase in 2012-2013 exceeds the council tax "excessiveness principles" applied for that year. These new rules replace the previous capping regime where the government would impose a cap on council tax increases.

1.3 The Secretary of State has proposed the council tax principles he is minded to set for 2012-2013. These are that fire and rescue authorities will be required to seek the approval of the local electorate in a referendum if, compared with 2011-2012, they set a council tax increase that exceeds 4.0%:

1.4 At the time of writing this report, these principles are still subject to final parliamentary approval. The final approvals are anticipated to be set in mid February 2012.

1.5 Whilst the Authority could consider an increase of 4.0% and still be within the "excessive principles" to be applied, this report considers four options, A to D below, of which the maximum increase is 3.0%. The 4.0% option is not included given the results of the precept consultation survey (paragraph 8 of this report) which only indicates limited support for a 4.0% increase.

OPTION A – Freeze council tax at 2011-12 level (£71.77 for a Band D Property).

OPTION B – Increase council tax by 2.0% above 2011-12 (£73.20).

OPTION C – Increase council tax by 2.5% above 2011-12 (£73.56).

OPTION D – Increase council tax by 3.0% above 2011-12 (£73.92).

1.6 The Committee is asked to consider each of these options with a view to making a recommendation of one option to the Fire and Rescue Authority meeting to be held on the 17 February 2012.

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. The Spending Review in October 2010 provided specific details of how public spending would be reduced over the four year period 2011-12 to 2014-15, 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 requires fire and rescue authorities to put plans in place to deliver 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.

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

3.1 The Local Government Finance Settlement announcement in December 2010 provided local authorities with individual grant allocations for the two financial years 2011-12 and 2012-13. The further provisional Local Government Finance Settlement made in December 2011 only served to confirm that the original figures announced twelve months previously for 2012-13 will stand.

3.2 The settlement announced average local 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, which is consistent with the government commitment that the larger reductions in Fire funding will be back-loaded to 2013-14 and 2014-15.

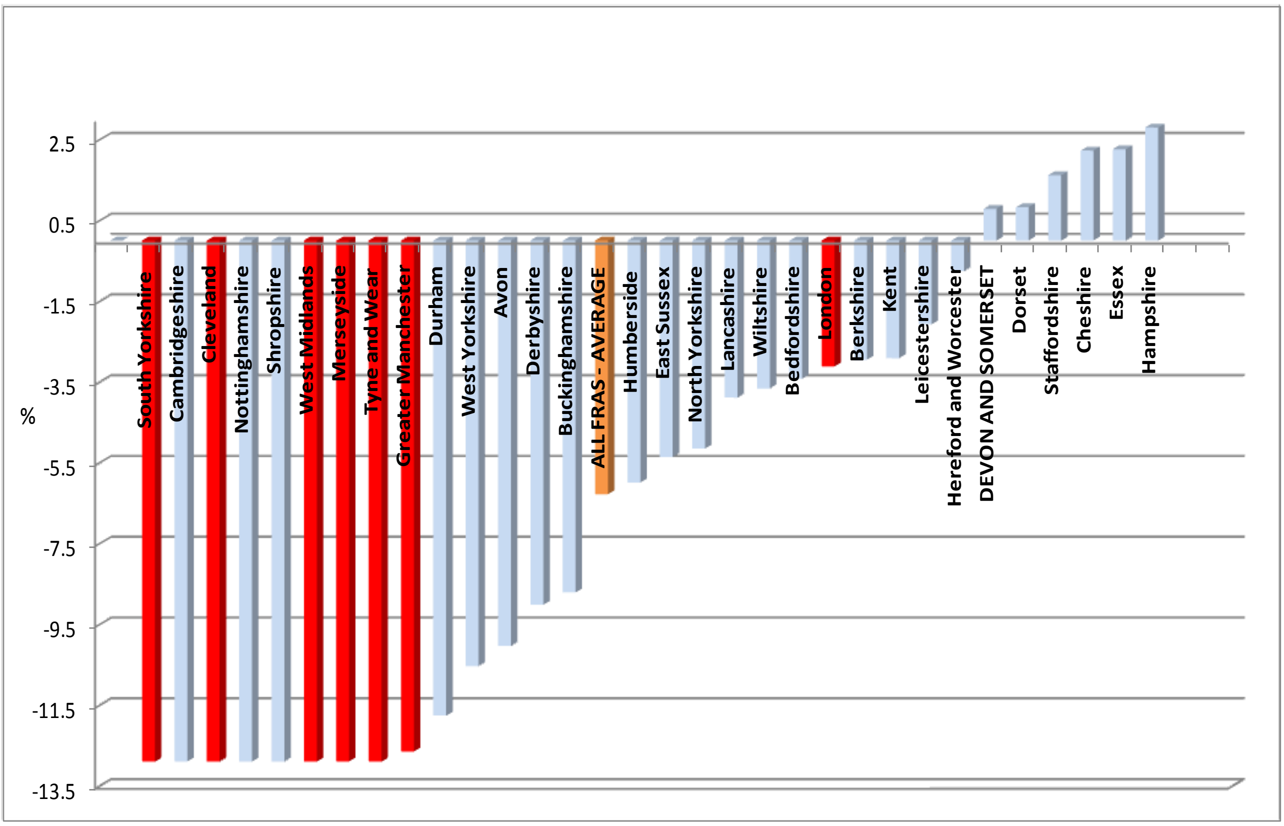
Impact of Provisional Grant Settlement to Devon and Somerset FRA

3.3 The actual changes in grant figures for Devon and Somerset FRA were a reduction in 2011-12 of -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.

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

3.4 These allocations were certainly more favourable than had originally 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. Chart 1 overleaf provides an analysis of changes in grant for all FRA's over the two years 2010-11 to 2012-13.

CHART 1 – ANALYSIS OF CHANGES IN FRA FORMULA GRANT 2012-13 OVER 2010-11



3.5 Chart 1 above illustrates that, whilst the average reduction in grant for Fire is -6.3%, the range of reductions are from -12.9% (eight FRAs) to +2.80% (Hampshire FRA). As the government has set a floor of -12.9% no FRA has suffered a reduction of more than -12.9%.

<u>Local Government Resource Review</u>

3.6 As is stated earlier the Local Government Finance Settlement announcement in December 2010 covered the first two years of the four year CSR 2010 period. The reason that grant figures were only released for two years rather than the whole four-year period is that the government had announced its intention to fundamentally change the way local authorities are to be funded from 2013-14.

3.7 In the summer of 2011 the government issued a consultation document *"Local Government Resource Review – Proposals for Business Rate Retention"* which outlined its proposed changes which would allow councils to retain locally raised business rates. The main principle behind the new system is to free councils from dependence on central Government grants and to provide a strong incentive for them to stimulate growth in the local economy.

3.8 Given that fire and rescue authorities are not billing authorities, and have very limited leverage in terms of stimulating the local economy, it is difficult to assess with any certainty the impact of the new system to the future funding of Devon and Somerset FRA from April 2013. The government has made it clear however that the new system will be working within the CSR 2010 control totals already set for 2013-14 and 2014-15, which means that the back-loading of grant reductions for fire and rescue authorities is still to be applied to 2013-14 and 2014-15. Based upon grant reductions already applied to Fire in 2011-12 and 2012-13 it is estimated that there are still -13.5% cash reductions in grant to come in 2013-14 and 2014-15. It is not anticipated that actual funding figures for 2013-14 and 2014-15 at individual authority level will be known until late 2012.

4. <u>REQUIREMENT TO HOLD A LOCAL REFERENDUM FOR EXCESSIVE COUNCIL TAX INCREASES</u>

4.1 The government had already published a consultation document during 2010 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. It proposed that 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.

4.2 The Localism Act received Royal Assent in December 2011 and included the implementation of the new system from 2012-13. Under these new arrangements any authority that wishes to increase council tax beyond a government set limit (principles), will be required to hold a referendum by May of the financial year in question, to seek the approval of the local electorate to such an increase. If the referendum results in a ‘yes’ vote then the increase will stand, however, if a ‘no’ vote is the outcome then the authority will need to revert to a council tax increase limited to the government set limit. This means that, in such circumstances at the budget meeting, two budgets will need to be considered, the budget at the excessive council tax level, and a second “shadow budget” based on the government set limit for council tax increases.

4.3 The government principles to be applied for 2012-13 have now been announced (subject to parliamentary approval), which are that a local authority will be required to seek the approval of their local electorate in a referendum if, compared with 2011-12, they set a council tax increase that exceeds:

- 3.5% for most principal authorities;
- 3.75% for the City of London;
- 4% for the Greater London Authority, police authorities, and single purpose fire and rescue authorities.

4.4 This means that a fire and rescue authority can increase its council tax by up to 4.0% without the need to hold a local referendum.

5. COUNCIL TAX AND BUDGET REQUIREMENT 2012-2013

Council Tax

5.1 Members will be aware that the government has laid out its expectations that for 2012-2013 local authorities freeze council tax for a second year. To encourage authorities to do this it has announced that it will pay a further Council Tax Freeze Grant to those authorities that set a zero per cent increase in council tax for 2012-13. For fire and rescue authorities (and police) this grant will be equivalent to an increase in council tax of 3.0%, estimated to be £1.327m (subject to confirmation of council tax base for 2012-13) for this authority.

5.2 However, it is important to recognise that this grant is different from the Reward Grant paid in relation to 2011-12 in that it will be paid for 2012-13 only, whereas the 2011-12 grant will be paid for each year of the CSR 2010 period. This makes this new grant less attractive and it is the Treasurers view that unlike 2011-12 when all local authorities decided to take the grant on offer and freeze council tax, this time there will be a number of authorities that will refuse the grant and opt to increase council tax. 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.

5.3 For 2012-13 therefore, the Authority has to decide first as to whether it wishes to freeze council tax for a second year or not, and if it chooses to increase council tax then secondly, to decide what level of increase is required. Each 1% increase in council tax represents a £0.71p increase for a Band D property, and is equivalent to a £0.443m variation on the revenue budget. This report considers four options:

OPTION A – Freeze council tax at 2011-12 level (£71.77 for a Band D Property).

OPTION B – Increase council tax by 2.0% above 2011-12 (£73.20).

OPTION C – Increase council tax by 2.5% above 2011-12 (£73.56).

OPTION D – Increase council tax by 3.0% above 2011-12 (£73.92).

5.4 Included in this report at paragraph 8 is a summary of the results of the 2012-2013 precept consultation exercise. Given that there is limited support from business and the public for a 4% increase, this report has not considered increases beyond 3.0%.

5.5 Each of these options will increase the amount of revenue funding available in 2012-2013. Table 2 overleaf provides a summary of the increase in funding over 2011-2012 for each of the four options.

TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – INCREASE IN SPENDING POWER OVER 2011-12

	OPTION A	OPTION B	OPTION C	OPTION D
	Council Tax Freeze at £71.77	Council Tax Increase of 2.0% to £73.20	Council Tax Increase of 2.5% to £73.56	Council Tax Increase of 3.0% to £73.92
	£m	£m	£m	£m
TOTAL FUNDING 2011-2012	**76.240**	**76.240**	**76.240**	**76.240**
Increase in Government Grant	0.591	0.591	0.591	0.591
Increase in Council Tax Precept	0.364	1.247	1.469	1.692
Increase in Share of Billing Authorities Council Tax Collection Funds	0.154	0.154	0.154	0.154
2012-13 Council Tax Reward Grant	1.328	-	-	-
TOTAL FUNDING AVAILABLE 2012-2013	**78.677**	**78.232**	**78.454**	**78.677**
INCREASE IN SPENDING POWER	**2.437**	**1.992**	**2.214**	**2.437**

5.6 The impact of each of the options over 2011-12 is summarised below:

- **Option A** offers the equal largest increase in spending power in 2012-13 +2.437m, but the reward grant of £1.327m will be removed in 2013-2014 as the grant is payable for one year only.

- **Option B** offers a smaller increase in spending power than Option A in 2012-13 +1.992m however this amount would be built into base and will therefore be available for the Authority to spend in all future annual budgets.

- **Option C** offers a smaller increase in spending power than Option A in 2012-13 +2.214m however this amount would be built into base and will therefore be available for the Authority to spend in all future annual budgets.

- **Option D** offers the equal largest increase in spending power in 2012-13 +2.437m and this amount would be built into base and will therefore be available for the Authority to spend in all future annual budgets.

5.7 It should be noted that at the time of writing this report these figures can only be regarded as provisional. This is due to the fact that the final Local Government Finance Settlement has not yet been announced (anticipated mid February), and the council tax base figures and declaration of surpluses/deficits on council tax collection funds from the fifteen billing authorities in Devon and Somerset are still to be approved by their relevant authorities. It is therefore possible that some changes will be made which would result in a change to the total funding available for 2012-13. An oral update on any changes announced will be made at the meeting.

Net Budget Requirement

5.8 Table 3 below provides a summary of a proposed revenue budget for 2012-13 on the basis of setting the budget at £78.677m i.e. Option A or Option D. A breakdown of the more detailed items included in this draft budget are included in Appendix A.

5.9 *It should be emphasised that whilst this Table includes a draft budget on the basis of Options A and D, this is for presentation purposes only. Should the Committee decide to approve Options B or C, then officers will need to take a view as to which budget heads would need to be reduced to accommodate the reduction in budget required.*

TABLE 3 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2012-2013	**£m**	**%**
Approved Net Revenue Budget Requirement 2011/2012	76.240	
PLUS Provision for pay and price increases (items 1 to 4 included in Appendix A to this report)	1.303	
PLUS Inescapable Commitments (items 5 to 9 included in Appendix A to this report)	(0.178)	
MINUS One-off investments in 2011-12 (items 10 to 13 included in Appendix A to this report)	(1.103)	
PLUS Invest-to-Save/Essential Spending Pressures (items 14 to 18 included in Appendix A to this report)	4.040	
CORE SPENDING REQUIREMENT 2012-2013	**80.302**	
MINUS Budget Savings/Income Generation (items 19 to 23 included in Appendix A to this report)	(1.625)	
NET REVENUE BUDGET REQUIREMENT 2012-2013	**78.677**	
INCREASE IN BUDGET OVER 2011-2012 (£m)		**2.437**
INCREASE IN BUDGET OVER 2011/2012 (%)		**3.19%**

Invest-to-Save/Essential Spending Pressures

5.10 In constructing the budget requirement for 2012-13 an amount of £4.040m 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, or be risk critical in terms of enhancing firefighter safety and operational resilience.

5.11 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 £0.936m has been identified as the minimum requirement in 2012-13 to support the key improvement projects to be progressed through the two Change and Improvement Programmes in 2012-13. This sum will be allocated during the financial year, by the officer led Portfolio Management Board, subject to the approval of robust business cases which demonstrate the delivery of efficiencies or improvements to the Service.

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 2012-13 to 2014-15. 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. That programme includes some significant capital investment needs to be delivered in 2013-14 such replacement of breathing apparatus equipment, and the introduction of light rescue pumps (LRPs). To deliver that level of programme and maintain the debt ratio within the 5% limit it is proposed that in setting the 2012-13 revenue budget an amount is of £1.850m is utilised to directly fund capital spending.

III. **Commercial Services Activities (invest-to-save) –** the establishment of the Commercial Services Arm has already increased income generation from the delivery of external training courses from £0.5m in 2010-2011 to a projected £1.1m in 2011-2012. For 2012-13 the income target has been increased by £0.395m. It is proposed that this additional income is re-invested back into commercial activities to cover costs of the Commercial Services Team, increased number of trainers, and costs of Members allowances associated with the Commercial Services Committee.

IV. **Alternative Fire Control Building –** The issues surrounding the closure of the Regional Fire Control Project by the Department of Communities and Local Government (CLG) and the alternative arrangements for the Networked Fire Control Project, in collaboration with Dorset, Wiltshire and Hampshire Fire and Rescue Services has been reported to the Committee previously. The procurement for a new operating system and associated systems are likely to be complete by the end of the next financial year (2012/13) and consequently, there is a need to locate this into a new facility. Whilst the business case for this project has yet to be agreed, the pressure on the capital programme makes a new building on site unlikely. At this time, it is proposed to allocate £0.490m from the 2012-13 revenue budget to fund refurbishment to existing buildings to facilitate the development of fire control on the Service Headquarters (SHQ) site.

V. **Essential Spending Pressures –** an amount of £0.369m has been included for investment in a small number of essential spending bids agreed by the Senior Management Board from a large number of bids received from budget managers. The main areas of support relate to the enhancement of firefighter safety, enhanced training budget for Retained Duty System, the provision of Automatic External Defibrillators (AEDs) on front line appliances, Service Level Agreement with Plymouth and Devon Equality Council, and increased legal support.

6. MEDIUM TERM FINANCIAL PLAN

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, but we will not know the scale of grant reductions at FRA level for 2013-14 and 2014-15 until late 2012. The uncertainty of the funding position is exacerbated by government plans to implement a significant change to the funding of local authorities from 2013-14, involving the introduction of the local retention of business rates system, and the abolition of Formula Grant.

6.2 This uncertain future over our funding for the next few years makes it even more important that financial planning spans more than just one year, so as decisions on council tax can be made on the basis of its impact over the medium term. The Medium Term Financial Plan has therefore been updated to span a four year period from 2012-13 to 2015-16.

6.3 Clearly it is difficult to provide forecasts into future years with absolute certainty, particularly in relation to future pay awards, inflationary increases and changes in pension costs. Key assumptions have therefore had to be made in our forecasts which will inevitably be subject to change. However, the prudent forecasts of future budgets 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.

7. PLANS TO ACHIEVE BUDGET REDUCTIONS 2012-13 TO 2015-16

7.1 Whilst it is not possible to predict the scale of budget reductions required by 2014-2015 with absolute certainty, the MTFP financial model can be used to assess 'best case' and worst case' scenarios. This modelling assessed last year that on-going savings of between -4.5m (best case) and -£9.2m (worst case) would be required by 2014-2015, over the 2010-2011 budget.

7.2 This budget report proposes total budget reductions of -£1.6m to be delivered in 2012-13 (Appendix A items 19 to 23), which when added to the £1m of savings identified in setting the 2011-12 budget, means that the Authority has already identified -£2.6m of on-going savings which will contribute to the budget reductions programme required by 2014-2015.

7.3 Using our original forecast of savings required this means that the savings delivered so far has reduced our savings requirement for 2014-2015 to -£1.9m (best case) to -£6.6m (worst case). This position would be exacerbated should the decision be made to freeze council tax in 2012-13 as the loss of the freeze grant would also need to be made up by further reductions in spending, or increases in council tax from 2013-2014. Table 4 overleaf summarises how the -£2.6m of savings delivered so far are made up.

TABLE 4 – SUMMARY OF ON-GOING SAVINGS DELIVERED 2011-12 AND 2012-13	**£m**
Vacancy Management	(0.575)
Adoption of Zero Base Budgeting and efficiency savings identified from Budget Holders	(0.647)
Additional Revenue from Commercial Activities	(0.495)
Amalgamation of control rooms	(0.503)
Senior Management Board restructure	(0.154)
Changes to mobilisation arrangements to co-responder calls	(0.075)
Change in policy to Automatic Fire Alarm (AFA) calls	(0.109)
Change in payroll provider	(0.059)
Dissolution of Regional Management Board	(0.025)
TOTAL SAVINGS 2011-12 AND 2012-13	**(2.642)**

7.4 Members will be well aware that in planning to deliver the savings by 2014-15 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.
Using slightly smaller fire engines for relevant areas.
Commencing discussions with staff as to how we can change the existing shift system.
Savings from reductions in the senior management team in 2010.
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.

7.5 Looking beyond 2014-15, the Chancellors' Autumn Statement in November 2011 indicated that the austerity measures currently in place will need to continue for at least two years beyond 2014-15. Whilst we cannot be certain of the impact of this Statement on local government funding, it would indicate that further reductions in funding will be made.

7.6 The progression of projects within the Change and Improvement Programmes will be key to the delivery of further savings in the next few years. Officers are confident that the significant work underway within this programme will secure the necessary budget reductions by 2014-15.

8. PRECEPT CONSULTATION 2012-2013

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

8.2 For 2012 the consultation was extended to include members of the public; it was deemed inappropriate not to include the public's views on the option of increasing Council Tax at a time of economic difficulty.

8.3 A telephone survey methodology was used as in previous years due to the short timescale to complete the research. 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 of 400 business and 400 members of the public by constituent authority area (Devon County Council; Plymouth City Council; Somerset County Council; and Torbay Council).

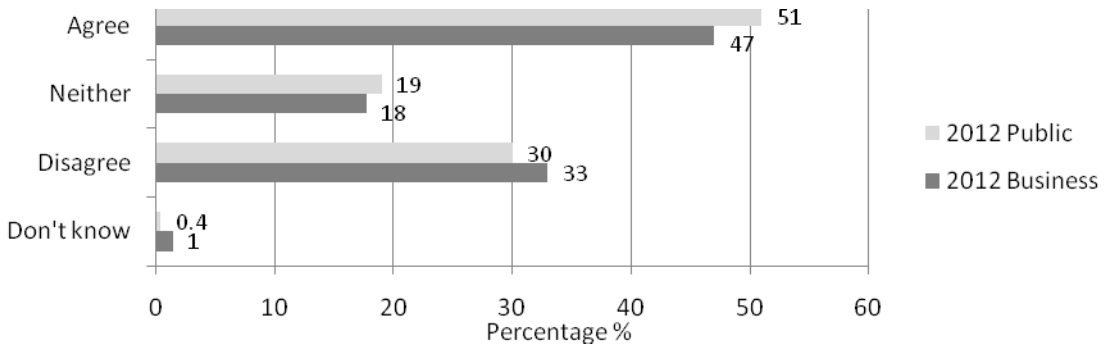
8.4 The survey commenced the week beginning Monday 8 January 2012 and was undertaken by BMG Research. Appendix B provides the full report of the results produced by BMG Research.

Results

8.5 **Question 1: 'How strongly do you agree or disagree that it is reasonable for the Authority to consider increasing its council tax charge for 2012/13 in order to safeguard the present levels of service?'**

The results to Question 1 show that the results are very similar between the public and business samples demonstrating that the two groups hold similar views. The top line results in Graph 1 reveal that more business and public respondents agree than disagree that it is reasonable to consider increasing its Council Tax charge for 2012/13.

Graph 1: Business and public results as to whether they agree it is reasonable for the Authority to consider increasing its council tax charge for 2012/13

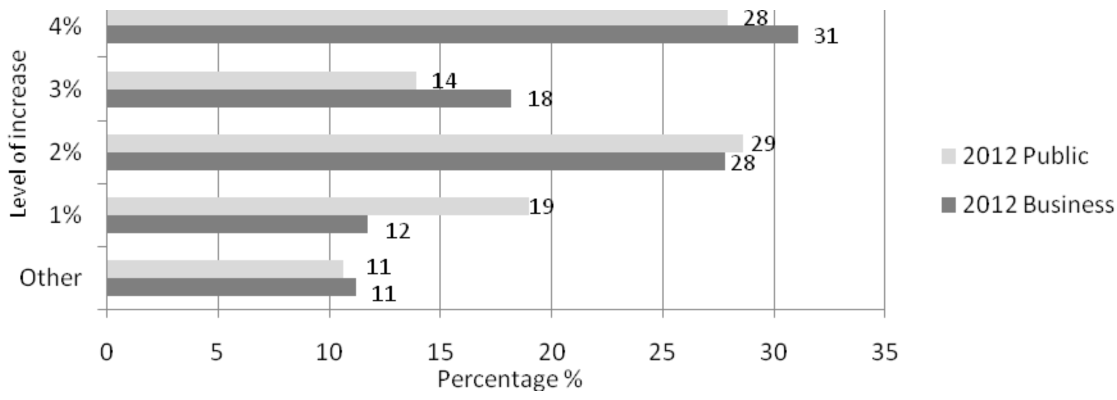


In the 2011 survey, 77% of business respondents agreed that the Authority should not increase its Council Tax charge for 2011/12. The 2012 survey results, therefore, suggest that opinion has changed over the year towards a more positive view of increasing the Council Tax precept.

8.6 **Question 1.b 'If you answered agree or strongly agree what level of increase based on the current figure of £71.77 would you consider reasonable?**

The results to Question 1b, shown in Graph 2, demonstrate that the support for increasing the Council Tax does not, as may be assumed, decline as the percentage increases. Instead the greatest level of support is for either 2% or 4% and this is consistent for both public and business responses.

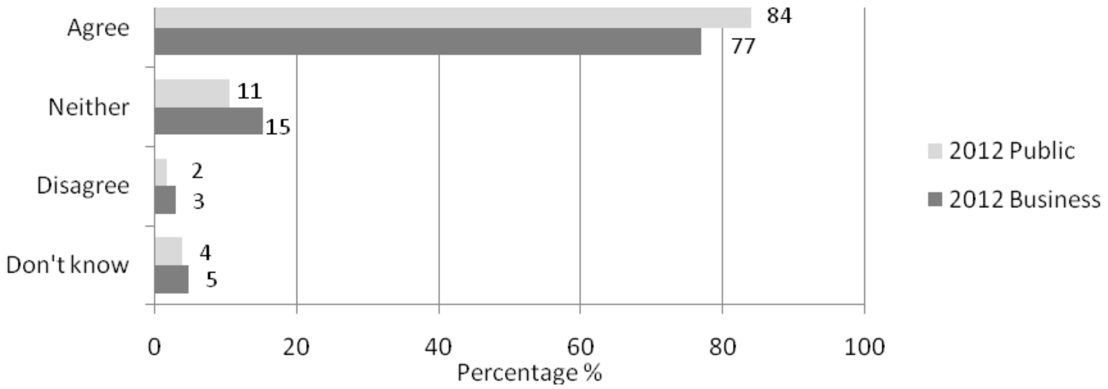
Graph 2: The percentage level increase considered reasonable by respondents who agreed to Question 1



8.7 **Question 2. Devon and Somerset Fire and Rescue Service's total annual budget (e.g. Council Tax, Government Grant, Non Domestic Rates) equates to £122.72 per Band 'D' household across Devon and Somerset. How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money?**

The cost quoted for £122.72 was calculated 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 provides a more transparent approach of providing rate payers with a more accurate assessment of the costs of DSFRS. The results in Graph 3 show that both public and business respondents agree that the Service provides value for money and that there is a higher level of agreement from members of the public.

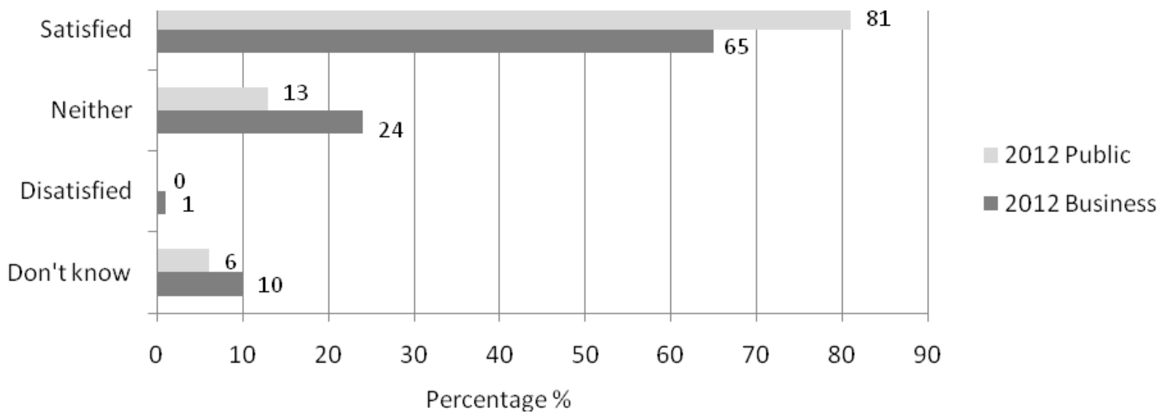
<u>Graph 3: How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money?</u>



8.8 **Question 3 How satisfied are you with the service provided by Devon and Somerset Fire and Rescue Service?**

The results in Graph 4 show that there is high level of satisfaction with the service provided amongst members of public. Satisfaction levels are lower amongst businesses but this is not necessarily because they are dissatisfied; more business respondents reported *'Neither agree nor disagree'* or *'Don't know'* than members of the public.

Graph 4: How satisfied are you with the service provided by DSFRS



8.9 **Conclusion**

In both cases, more members of the public and the business community agree than disagree that it is reasonable for the Authority to consider increasing its Council Tax precept for 2012/13. For those who agreed the Authority should consider increasing the level of precept the most support was for a 2% or 4% increase. Results from members of the public and business community show that respondents agree the Service provides value for money and are also satisfied with the service provided.

9. RESERVES AND BALANCES

9.1 In setting the revenue budget and council tax for 2012-2013, 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 2012-2013. 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.

9.2 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/12/2). This indicates a projected underspend of £0.951m. 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. 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 2011-12 final outturn position is known the Authority will need to decide how any underspend is to be utilised.

9.3 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.

9.4 It is, of course, pleasing that the Authority has not experienced the need to call on reserve balances in recent 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.

9.5 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.

10. <u>SUMMARY</u>

10.1 The Authority is required to set its level of revenue budget and council tax for 2012-2013 by 1 March so that it can meet its statutory obligation to advise each of the fifteen billing authorities in Devon and Somerset of the required level of precept for 2012-2013. 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.

10.2 The report considers four potential options A to D and asks the Committee to consider the financial implications associated with each option with a view to recommending one of these options to the budget setting meeting of the full Fire and Rescue Authority, to be held on the 17 February 2012.

KEVIN WOODWARD
Treasurer

LEE HOWELL
Chief Fire Officer

APPENDIX A TO REPORT RC/12/3

DRAFT REVENUE BUDGET REQUIREMENT 2012-2013

		£m	£m	%
	Revenue Budget 2011-2012 (approved Net Budget £75.141m PLUS 2011-2012 Council Tax Reward Grant £1.099m)		**76.240**	
	Provision for Pay and Prices			
1.	Uniformed Pay (assumed 1.0% from July 2012))	0.340		
2.	Non-Uniformed Pay (assumed 1.0% from April 2012)	0.092		
3.	Provision for prices increases (assumed CPI of 5.2%) plus additional allowance for fuel, utilities and non-domestic rates)	0.765		
4.	Provision for inflationary increase in pension costs.	0.106		
			1.303	
	Inescapable Commitments			
5	Pay increments and other pay changes	0.113		
6	Reduction in debt charges (including leasing costs)	(0.409)		
7	Increase in Occupational Health Costs	0.031		
8	Increase in Rates Costs from removal of rates relief	0.052		
9	Other changes (net)	0.035		
			(0.178)	
	One-off Provisions included in 2011-12 Budget			
10	Replacement of obsolete Hand Held Radios	(0.200)		
11	Change and Improvement Programmes (invest-to-save)	(0.740)		
12	Document Records Management System	(0.075)		
13	Replacement Training System	(0.088)		
			(1.103)	
	Invest-to-Save/Essential Spending Pressures			
14	Change and Improvement Programme	0.936		
15	Revenue Contribution to Capital Spending	1.850		
16	Commercial Services Activities	0.395		
17	Alternative Fire Control Room	0.490		
18	Essential Spending Pressures	0.369		
			4.040	
	Efficiency Savings/Income Generation			
19	Business Support Programme - Zero Based Budgeting - Change of Payroll Provider	 (0.305) (0.059)		
20	Service Delivery Programme - Amalgamation of Control Rooms - Change in mobilisation arrangements to co-responder calls - Change in Policy to Automatic Fire Alarm (AFA) calls	 (0.503) (0.025) (0.084)		
21	Additional income generation from Commercial Activities	(0.395)		
22	Vacancy Management	(0.150)		
23	Senior Management Board Restructure	(0.104)		
			(1.625)	
	TOTAL CHANGES (LINES 1 TO 23)		**2.436**	
	DRAFT REVENUE BUDGET REQUIREMENT 2012-2013		**78.677**	

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/12/4**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**3 FEBRUARY 2012**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2012-13 TO 2014-15**
LEAD OFFICER	**DIRECTOR OF SERVICE SUPPORT AND TREASURER**
RECOMMENDATIONS	***That the Devon and Somerset Fire and Rescue Authority at its meeting on 17 February 2012 be asked to:*** ***(a) Approve, in accordance with Financial Regulations, a contribution of £1.850m from the 2012-2013 Revenue budget to part fund the 2012-13 capital programme, and*** ***(b) Subject to (a) above, approve the Capital Programme and associated prudential indicators for the years 2012-2013 to 2014-2015, as included within Appendix B of report RC/12/4; and*** ***(c) Subject to (a) and (b) above, the report be noted.***
EXECUTIVE SUMMARY	Each year, the Capital Programme is reviewed and adjusted to include new projects or those that have been carried forward, allowing the capital investment needs of the Service to be understood over a three year rolling programme. Capital expenditure remains an issue for this Authority given the size of the property portfolio and the Service's growing maintenance obligations – a position made worse by the 25% reduction in fire grant funding announced in the Comprehensive Spending Review 2010. The consequence of a reducing revenue budget will impact on borrowing limits for this Authority and, whilst the Service has maintained expenditure within limits, certain projects and opportunities have been revised accordingly.

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 – Summary of Proposed Capital Programme 2012/13 – 2014/15 Appendix B – Prudential Indicators 2012/13 – 2014/15
LIST OF BACKGROUND PAPERS	None

1. INTRODUCTION

1.1 Each year the Capital Programme is reviewed and adjusted to include new projects or those that have been carried forward, allowing the capital investment needs of the Service to be understood over a three year rolling programme. Appendix A represents the proposed programme for 2012/13, including years 2013/14 and 2014/15.

1.2 Capital expenditure remains an issue for this Authority given the size of the property portfolio and our growing maintenance obligations. A position made worse by the 25% reduction in Fire grant funding announced in the Comprehensive Spending Review 2010.

1.3 The programme continues to be adjusted annually, to meet the pressing needs of this Authority, which in the past has been met from the reduction of the vehicle replacement programme to accommodate projects such as the new fire stations builds and the more recent Training Academy development at Exeter Airport. However, there are a number of essential projects pending, such as the harmonisation of breathing apparatus equipment and the need to reinstate the vehicle replacement programme in full by 2013/14. These projects put significant pressure on the capital programme and the ability to keep borrowing costs within the 5% prudential indicator previously recommended to the Authority.

1.4 For 2012/13 this position has, in part, been eased by the allocation of £2.021m direct grant funding from the Department for Communities and Local Government (CLG) as part of the £70m allocated nationally to Fire. For 2013-14 and beyond, this grant will be subject to a new distribution formula, which will involve only part of the £70m being allocated direct to individual FRAs, the remainder being subject to some form of bidding process. The criteria to be applied to the bidding process is yet to be announced but it is anticipated that successful bids will be those that can demonstrate the delivery of efficiencies.

1.5 This report therefore proposes a programme for 2012/13 to 2014/15 whilst recognising that this Authority faces significant pressure in balancing what is affordable in terms of its exposure to external borrowing, particularly in light of the current economic position and changing interest rates and ensuring our assets remain ‘fit for purpose’.

2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

2.1 In 2010/11, a report RC/08/10 - “Affordable Capital Investment Plans for 2009-2010 to 2011-12” was submitted to the Resources Committee regarding the instigation of a principle that debt repayments be kept below 5% of the total revenue budget. It was subsequently identified that this may be breached in 2012/13, although this is not as a consequence of borrowing being in excess of agreed limits, but future revenue budgets being lower than originally forecast following the Comprehensive Spending Review (CSR) 2010 announcement. This resulted in a 25% reduction in government grant by 2013/14 and consequently, the Capital Programme going forward will be affected.

2.2 The tests of affordability are measured by compliance with the CIPFA Prudential Code for Capital Financing for Local Authorities. Under this code, the Authority is required to set a suite of indicators to provide assurance that capital spending is prudent, affordable and sustainable. The indicators are reviewed annually, although set for the three year period. They also include setting maximum borrowing limits to provide assurance around prudence and the setting of maximum debt ratios to provide assurances in relation to affordability and sustainability.

2.3 The issue of affordable capital spending has been the subject of several reports to both this Committee and the Authority in recent years. The most recent report was considered in February 2011 (report DSFRA/11/1 refers) when setting the existing capital programme, which was approved in the knowledge that external borrowing would need to increase to £33.6m by 2013/14, which would increase the debt ratio to 4.93%. The external borrowing requirement figure at the end of 2011/12 is forecast to be £27.0m.

2.4 Whilst a debt of £33.6m is not considered excessive for this size Authority, it is evident that the Committee will want to monitor its exposure to further debt levels as the Service moves forward in the next 3-5 years, to ensure that the debt levels are affordable in the context of the ability to service debt repayments through the revenue budget.

2.5 The focus of this Authority has been to control spending within the 5% limit. To achieve this, the Service has, over recent years, reduced the spend on the appliance replacement programme to support estates projects, and utilised revenue funding wherever possible. It has always been intended to replace the fleet programme in full by 2013/14, however, the extent to which this can be achieved will always be subject to affordability issues as measured by the Prudential Indicators.

2.6 The revised programme proposed in this report has again been constructed on the basis of keeping the debt ratio within the 5% limit by 2014/15. This inevitably means that not all of the Service's capital investment backlog can be delivered in this period, and the position will need to be reviewed in twelve month's time when a clearer picture is available as to the extent of the revenue grant reductions for 2013/14 and 2014/15.

3. **SERVICE ESTATES**

3.1 The current budget for Estates remains consistently insufficient for the extensive property portfolio and associated maintenance requirements, the budget, outside of specific projects is normally in the range of £1.75 - £2m. However, this figure does not reflect the true costs which are in the region of £5m. Whilst combination provided many benefits, the Estates department inherited additional building stock with no increase in budget or staffing. In recognising the additional pressures over the next few years, the estates function is currently being reviewed by Atkins consultants, the aim of which is to identify where improvements can be achieved whilst maximising our current building stock for the benefit of the Service. The outcome of which will be reported to Members in due course.

3.2 It is proposed that the capital programme for 2012/13 is £6.062m to support slippage from 2011/12 and Phase 2 of the training arrangements at Exeter Airport, as approved by the Authority. The remaining budget reflects the normal annual allocation for minor works, improvements and structural maintenance. For 2013/14 this budget is significantly reduced, to an allocation of £1.750m. The Service Management Property Plan will be revised and reported to the Committee in due course.

4. EXETER AIRPORT TRAINING CENTRE

4.1 Negotiations regarding the lease have been protracted, delaying the commencement date of this project. Whilst these have now concluded there remain some outstanding conditions yet to be met. It is expected that work will commence early in March 2012 and the contract period for the build of 45 weeks should see the project complete by December 2012.

SERVICE FLEET AND EQUIPMENT

Vehicle Replacements/Equipment

5.1 The Authority has the second largest fleet of all fire and rescue services in England. Over the last four years, finances have been reallocated away from the annual fleet replacement programme in support of other projects elsewhere across the Authority, such as Middlemoor and Danes Castle fire stations and the development of the training academy at Exeter Airport. The slippage in replacing vehicles, particularly fire appliances, is becoming increasingly difficult to manage especially with increases in on-going maintenance costs. Although this situation is not ideal, the re-investment in the fleet replacement programme for 2013/14, through the LRP programme will greatly reduce any backlog.

5.2 Whilst this difficulty is recognised, it has been partially addressed in 2011/12 by utilising some of the specialist vehicles budget to appliances, although it is proposed to further suspend the fire appliance replacement programme during 2012/13 leaving a budget allocation of £2.535m, including slippage. This will support the harmonisation of specialist appliances and equipment replacement. Subject to the appropriate approvals it is proposed to increase the budget for 2013/14 to £2.7m to support the introduction of the Light Rescue Pump.

Light Rescue Pumps

5.3 The Light Rescue Pump (LRP) project pilot will be completed shortly. The Service is also considering options for a ‘self build’ programme and is in the process of building two LRP’s (proof of concept), which subject to satisfactory outcome is likely to form part of the procurement arrangements during 2012/13. All these matters will be reported to the Committee in due course.

5.4 Given the cost incentive, the LRP is likely to be £50,000 less than the conventional fire appliance, this is a unique opportunity to procure a more appropriate operational vehicle commencing in 2013/14 with a significant cost reduction. This approach will also go some way to reducing the backlog accrued over recent years through the reallocation of capital budget.

BA Replacement Programme

5.5 There is, amongst other matters such as age, maintenance and contracts an operational need to harmonise the breathing apparatus equipment between Somerset (Scott Sabre) and Devon (InterSpiro). As this is a matter of firefighter safety and therefore risk critical, it is proposed subject to the business case, to enter into a full procurement during 2012/13. It is estimated that £1.4million will be required in 2013/14 to fund this replacement programme.

6. REVISED CAPITAL PROGRAMME FOR 2011/12 – 2014/15

6.1 Appendix A provides an analysis of the proposed programme contained in this report. This programme represents an increase in spending of £2.5million over the previously agreed programme, as illustrated in Table 1 below.

TABLE 1	**Estates**	**Fleet and Equipment**	**Total**
	£m	**£m**	**£m**
EXISTING AGREED PROGRAMME			
2011/2012	5.1	2.2	7.3
2012/2013	3.7	1.6	5.3
2013/2014	1.7	1.9	3.6
2014/2015 (provisional)	1.7	1.9	3.6
Total 2011/12 TO 2013/14	**12.2**	**7.6**	**19.8**
PROPOSED PROGRAMME			
2011/2012 (forecast spending)	2.7	1.4	4.1
2012/2013	6.1	2.5	8.6
2013/2014	1.7	4.1	5.8
2014/2015	1.7	2.1	3.8
Total 2011/12 TO 2013/14	**12.2**	**10.1**	**22.3**
PROPOSED INCREASE	**0.0**	**2.5**	**2.5**

6.2 To fund all of this additional spending from external borrowing would breach the 5% debt ratio ceiling in 2014-15 (5.21%). Elsewhere on the agenda is the report “2012-2013 Revenue Budget and Council Tax Levels” for consideration. Included in the draft 2012-13 revenue budget is provision for a direct revenue contribution of £1.850m towards capital spending which would be required to keep the debt ratio within the 5% limit. The contribution from revenue will require the approval of the Fire & Rescue Authority in accordance with Financial Regulations.

6.3 The schedule in Appendix A illustrates the revised spending profiles for 2011/12 through to 2014/15, and a summary of the Prudential Indicators associated with this level of spending is included as Appendix B.

6.4 The estimated debt charges emanating from this revised spending profile are illustrated in Table 2 overleaf. These amounts are included in the 2012-13 revenue budget proposal and Medium Term Financial Plan 2012-13 to 2015-16.

TABLE 2 – SUMMARY OF ESTIMATED CAPITAL FINANCING COSTS

	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m
Base budget for Capital Financing Costs – debt charges and operating leasing rentals	5.162	4.753	4.950	5.425
Change over previous year		(0.409)	0.197	0.475
Debt Ratio	*4.14%*	*3.98%*	*4.32%*	*4.99%*

7 CONCLUSION

7.1 This report emphasises the difficulties in meeting the full capital expenditure requirement for the Service, given the size and the large numbers of fire stations and appliances required to be maintained and eventually replaced. The Committee has been advised over recent years of the difficulties in maintaining a programme that is affordable within the 5% Prudential Indicator. It was previously reported that the consequence of a reducing revenue budget will impact on borrowing limits for this Authority and that it was highly likely that we would breach the 5% ceiling. Whilst the Service has maintained expenditure within limits, certain projects and opportunities have been revised accordingly.

7.2 Restricted borrowing will affect many aspects of this Authority, including the roll out of the LRP, fire control and general maintenance of the current building stock. The review of both Fleet and Estates may go some way to understanding how to improve future arrangements, addressing the backlog of replacement and maintenance.

7.3 The proposed capital programme as set down in Appendix A is recommended for approval, on the basis that it goes some way to addressing the Service capital investment needs, whilst also providing some funding towards the introduction of a smaller, and cheaper, type of fire appliance (LRPs), whilst also keeping borrowing costs within the set limit of 5% of the total revenue budget.

TREVOR STRATFORD
Director of Service Support

KEVIN WOODWARD
Treasurer

Capital Programme (2011/12 to 2014/15)

2011/12 Budget (£000)	2011/12 predicted outturn (£000)	Item	PROJECT	2012/13 (£000)	2013/14 (£000)	2014/15 (£000)
			Estate Development			
30	30	1	Exeter Middlemoor	0		
10	3	2	Exeter Danes Castle	0		
96	96	3	SHQ major building works	0		
1,000	196	4	Major Projects - Training Facility at Exeter Airport	2,804		
		5	Minor improvements & structural maintenance	1,650	1,750	1,750
37	37	6	Welfare Facilities	0		
		7	Diversity & equality	0		
610	552	8	USAR works	58		
1,689	1,346	9	Minor Works slippage from 2010-11	343		
1,667	460	10	Minor Works 2011-12	1,207		
5,139	2,720		**Estates Sub Total**	6,062	1,750	1,750
			Fleet & Equipment			
397	780	11	Appliance replacement	700	1,900	1,900
1,315	177	12	Specialist Operational Vehicles	920	600	0
84	84	13	Vehicles funded from revenue			
127	127	14	Equipment	160	200	200
129	0	15	Asset Management Plan (Miquest) software			
180	180	16	Systems integration			
		17	BA replacement		1,400	
		18	Appliance and Specialist Operational Vehicles slippage	755		
2,232	1,348		**Fleet & Equipment Sub Total**	2,535	4,100	2,100
7,371	**4,068**		**SPENDING TOTALS**	**8,597**	**5,850**	**3,850**
			Programme funding			
3,507	204		Main programme	3,976	5,350	3,350
1,333	1,333		Revenue funds	2,600		
2,531	2,531		Grants	2,021	500	500
7,371	**4,068**		**FUNDING TOTALS**	**8,597**	**5,850**	**3,850**

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS - CAPITAL	2012/13 £m estimate	2013/14 £m estimate	2014/15 £m estimate
Capital Expenditure			
Non - HRA	8.597	5.850	3.850
HRA (applies only to housing authorities			
Total	8.597	5.850	3.850
Ratio of financing costs to net revenue stream			
Non - HRA	3.98%	4.32%	4.99%
HRA (applies only to housing authorities	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000
Non - HRA	28,403	31,744	32,739
HRA (applies only to housing authorities	0	0	0
Other long term liabilities	1,558	1,532	1,509
Total	29,961	33,276	34,248
Annual change in Capital Financing Requirement	£000	£000	£000
Non - HRA	2,001	3,315	972
HRA (applies only to housing authorities	0	0	0
Total	2,001	3,315	972
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	-£0.32	-£0.35	£0.09

PRUDENTIAL INDICATORS - TREASURY MANAGEMENT			
Authorised Limit for external debt	£000	£000	£000
Borrowing	34,159	35,875	37,313
Other long term liabilities	1,587	1,521	1449
Total	35,746	37,396	38,762
Operational Boundary for external debt	£000	£000	£000
Borrowing	32,739	34,288	35,676
Other long term liabilities	1,509	1,444	1,374
Total	34,248	35,732	37,050

TREASURY MANAGEMENT INDICATOR	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100%	70%
Limits on borrowing at variable interest rates	30%	0%
Maturity structure of fixed rate borrowing during 2012/13		
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	50%