M. Pearson
CLERK TO THE AUTHORITY

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

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RESOURCES COMMITTEE
(Devon and Somerset Fire and Rescue Authority)

Tuesday 10 February 2015

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

PLEASE REFER TO THE NOTES AT THE END OF THE AGENDA LISTING SHEETS

1. Apologies

2. Minutes of the meeting held on 20 November 2014 attached (Page 4).

3. Items Requiring Urgent Attention

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

PART 1 – OPEN COMMITTEE

4. Treasury Management Peformance Report 2014/15: Quarter 3

Report of the Treasurer (RC/15/1) attached (page 7)

5. Capital Programme 2015/16 to 2017/18

Report of the Chief Fire Officer and Treasurer (RC/15/2) attached (page 15)

6. 2015/16 Revenue Budget and Council Tax Levels

Report of the Treasurer and Chief Fire Officer (RC/15/3) attached (page 26)

7. Financial Performance 2014/15: Quarter 3

Report of the Treasurer to the Authority (RC/15/4) attached (page 47)

8. Urban Search and Rescue (USAR) Grant Reductions

Report of the Director of Operations (RC/15/5) attached (page 62)

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

9. Nil

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Dyke (Chairman), Yeomans Brooksbank, Burridge-Clayton, Chugg, Greenslade, Singh

NOTES	
1.	**<u>Access to Information</u>** Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact the person listed in the "Please ask for" section at the top of this agenda.
2.	**<u>Reporting of Meetings</u>** Any person attending a meeting may report (film, photograph or make an audio recording) on any part of the meeting which is open to the public – unless there is good reason not to do so, as directed by the Chairman - and use any communication method, including the internet and social media (Facebook, Twitter etc.), to publish, post or otherwise share the report. The Authority accepts no liability for the content or accuracy of any such report, which should not be construed as representing the official, Authority record of the meeting. Similarly, any views expressed in such reports should not be interpreted as representing the views of the Authority. Flash photography is not permitted and any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting; focusing only on those actively participating in the meeting and having regard also to the wishes of any member of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chairman or the Democratic Services Officer in attendance so that all those present may be made aware that is happening.
3.	**<u>Disclosable Pecuniary Interests (Authority Members only)</u>** If you have any disclosable pecuniary interests (as defined by Regulations) in any item(s) to be considered at this meeting then, unless you have previously obtained a dispensation from the Authority's Monitoring Officer, you must: (a) disclose any such interest at the time of commencement of consideration of the item in which you have the interest or, if later, as soon as it becomes apparent to you that you have such an interest; (b) leave the meeting room during consideration of the item in which you have such an interest, taking no part in any discussion or decision thereon; and (c) not seek to influence improperly any decision on the matter in which you have such an interest. If the interest is sensitive (as agreed with the Monitoring Officer), you need not disclose the nature of the interest but merely that you have a disclosable pecuniary interest of a sensitive nature. You must still follow (b) and (c) above.
4.	**<u>Part 2 Reports</u>** Members are reminded that any Part 2 reports as circulated with the agenda for this meeting contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Committee Secretary at the conclusion of the meeting for disposal.
5.	**<u>Substitute Members (Committee Meetings only)</u>** Members are reminded that, in accordance with Standing Order 35, the Clerk (or his representative) must be advised of any substitution prior to the start of the meeting. Members are also reminded that substitutions are not permitted for full Authority meetings.

RESOURCES COMMITTEE
(Devon and Somerset Fire and Rescue Authority)

20 November 2014

Present:-

Councillors Dyke (Chair), Burridge-Clayton, Chugg, Ellery (vice Brooksbank), Greenslade, Singh and Yeomans.

Apologies:-

Councillor Brooksbank

***RC/8. Minutes**

RESOLVED that the Minutes of the meeting held on 1 September 2014 be signed as a correct record.

RC/9. Treasury Management Performance 2014-2015: Mid Year Review

(Adam Burleton [CAPITA] – Treasury Management Adviser to the Authority – in attendance for this item).

The Committee considered a report of the Treasurer (RC/14/14) on Authority treasury management activities for the first two quarters of the current (2014-15) financial year in accordance with the best practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management.

The report set the Authority's treasury management performance against the UK and global economic performance and outlook. Particularly in this respect, the report identified potential changes, linked to levels of sovereign support, to credit ratings operated by Fitch, Moody and Standard and Poor (the main credit rating agencies). It was proposed that the Authority may wish to amend its Treasury Management Strategy, to the effect that the credit element of the Authority's future methodology for determining credit worthy investment counterparties should focus solely on Short- and Long-term ratings, to account for these changes.

The report concluded that no prudential indicators had been breached and that a prudent approach had been adopted to investment decisions with priority given to liquidity and security over yield. While investment returns were still low due to the fall in interest rates, it was still anticipated that Authority investment returns would exceed the budgeted target.

RESOLVED

(a) That the Authority be recommended to approve an amendment to its approved Treasury Management Strategy to reflect changes to credit methodology to cease monitoring the Viability and Financial Strength standalone ratings and assessing Support ratings, with the future focus for determining creditworthy investment counterparties being the Short- and Long-term ratings of an institution, as detailed paragraphs 3.7 to 3.11 of report RC/14/14; and,

(b) that, subject to (a) above, the Authority treasury management performance for the first two quarters of the current (2014-2015) as set out in the report be noted.

RC/10. **Financial Performance Report 2014-2015: Quarter 2**

(Councillor Brian Greenslade declared a personal, non-pecuniary interest in this item in so far as it related to Exeter Airport, by virtue of his being a non-executive Director on Exeter Airport).

The Committee considered a report of the Treasurer to the Authority (RC/14/15) on the financial performance of the Service for the first two quarters of the current (2014-15) financial year as against agreed targets.

An underspend of £0.862m (1.1%) was forecast against the approved revenue budget. This was net of a proposed transfer of £1.5m from to an Earmarked Reserve intended to fund a contribution to capital spending which in turn would deliver a further £195,000 recurring savings from 2016-17. The report identified major variations against the approved budget and particular reference was made to:

- the current position in relation to the impact of the Employment Tribunal decision on application of the Part Time Workers (Less than Favourable Working Conditions) Regulations. Individuals affected by this decision had until March 2015 to confirm whether they would wish to buy into the Firefighters Pension Scheme, by which time the Service would be in a better position to assess the financial impact;
- that income from commercial services was likely to exceed the budgeted target. In line with the Authority's earlier, in principle, decision any such excess against the budgeted target would be ring-fenced to provide further direct revenue funding towards capital spending.

Expenditure of £5.557m was projected against a revised Capital Programme of £7.154m. The revised programme had increased by £60,000 from the programme of £7.094m approved by the Authority at its last meeting (Minute DSFRA/ refers) to allow for the purchase of six community safety vehicles to be funded from the Earmarked reserve established to fund revenue contributions to capital spending. This increase in the overall programme, however, did not result in any increase in the external borrowing requirement.

The slippage of £1.597m against the revised Capital Programme would be carried forward to following years, as permitted by the Prudential Code, and would have a positive impact against the revenue account in that it deferred borrowing requirements and associated debt charges.

No prudential or treasury management indicators had been breached and the report also identified the current position in relation to outstanding debt, payment of supplier invoices and the Reserves and Provision balances held by the Authority.

RESOLVED

(a) that the Authority be recommended to approve the transfer of £1.5m forecast underspend against the 2014-15 approved Revenue Budget into the Earmarked Reserve established to fund further revenue contributions to capital spending;

(b) that, subject to (a) above, the monitoring position in relation to projected spending against the 2014-2015 revenue and capital budgets as set out in report RC/14/15 be noted; and

(c) that the performance against the other 2014-2015 financial targets as indicated in the report be noted.

***RC/11.** **Firefighters' Pension Scheme 2015: Consultation on Proposals for New Governance Arrangements**

The Committee considered a report of the Director of People and Commercial Services (RC/14/16) on the consultation issued by the Department for Communities and Local Government (CLG) on proposed governance arrangements for the Firefighters Pension Scheme 2015. A draft Authority response to the consultation, for which views were invited by 21 November 2014, was appended to the report.

RESOLVED that the Authority response to the CLG consultation on governance arrangements for Firefighters Pension Scheme 2015, as set out at Appendix A to report RC/14/16, be approved and the Clerk authorised to submit it on behalf of the Authority.

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

The meeting started at 14:00hours and finished at 15:26hours

REPORT REFERENCE NO.	**RC/15/1**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2015**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2014-2015 – QUARTER 3**
LEAD OFFICER	**TREASURER**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2014-2015 (to December) be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Code of Practice for Treasury Management. The Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA's Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Investments held as at 31 December 2014.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/14/3 – as approved at the meeting of the DSFRA meeting held on the 24 February 2014.

1. INTRODUCTION

1.1 The Treasury Management Strategy for Devon and Somerset FRA had been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) 2011 Treasury Management in Public Services Code of Practice (the Code) and the CIPFA Prudential Code. The most recent revision of the Code was adopted at the meeting of the DSFRA on 18th February 2013. The Authority fully complies with the primary requirements of the Code, which includes:

- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities.
- The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.
- The Receipt by the full Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
- The delegation by the authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

1.2 Treasury management in this context is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.3 The preparation of this report demonstrates that the Authority is implementing best practice in accordance with the code.

2. ECONOMIC BACKGROUND

Economic performance

2.1 After strong UK Gross Domestic Product (GDP) growth in 2013 at an annual rate of 2.7%, and 0.7% in Q1 2014, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards.

2.2 For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected.

2.3 The Monetary Policy Committee (MPC) is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage growth rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates.

2.4 Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

2.5 Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November - Ethe lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

2.6 The US Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently predicted that the first increase in the Federal rate will occur by the middle of 2015.

2.7 The Eurozone is facing an increasing threat from deflation. In November, the inflation rate fell to 0.3%. However, this is an average for all Eurozone countries and includes some countries with negative rates of inflation. Accordingly, the European Central Bank (ECB) did take some rather limited action in June and September to loosen monetary policy in order to promote growth and is currently expected to embark on quantitative easing early in 2015 to counter this threat of deflation and to stimulate growth.

<u>Capita Interest Rate Forecasts</u>

2.8 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
5yr PWLB rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%

2.9 Capita Asset Services undertook a review of its interest rate forecasts on 5 January 2015 after a proliferation of fears in financial markets around the plunge in the price of oil had caused a flight from equities into bonds and from exposure to the debt and equities of emerging market oil producing countries to safe havens in western countries. These flows were compounded by further fears that Greece could be heading towards an exit from the Euro following the general election on January 25, and financial flows generated by the increasing likelihood that the ECB would soon be starting on full blown quantitative easing (QE) purchase of Eurozone government debt. In addition, there has been a sharp increase in confidence that the US will start increasing the Federal rate by the middle of 2015 due to the stunning surge in GDP growth in quarters 2 and 3 of 2014. This indicated that the US is now headed towards making a full recovery from the financial crisis of 2008.

3. TREASURY MANAGEMENT STRATEGY STATEMENT

Annual Investment Strategy

3.1 The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement (TMSS) was approved by the Authority on the 24th February 2014. It outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity

3.2 The Authority will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep a significant proportion of investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions using the Capita suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Capita.

3.3 A full list of investments held as at 31 December 2014 are shown in Appendix A.

3.4 Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme.

3.5 The average level of funds available for investment purposes during the quarter was £33.911m (£37.119m in previous quarter). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

Benchmark	Benchmark Return	Authority Performance	Investment interest to quarter 3
3 Month LIBID	0.43%	0.45%	£63,050

3.6 As illustrated, the authority outperformed the 3 month LIBID benchmark by 0.02 bp. It is also forecast that the Authority's budgeted investment target for 2014-2015 of £0.100m will be overachieved.

Borrowing Strategy

Prudential Indicators:

3.7 It is a statutory duty for the Authority to determine and keep under review the "Affordable Borrowing Limits". The Authority's' approved Prudential Indicators (affordability limits) are outlined in the approved TMSS.

3.8 A full list of the approved limits (as amended) are included in the Financial Performance Report 2014-2015, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to December 2015 and that there are no concerns that they will be breached during the financial year.

Current external borrowing

3.9 External borrowing as at 31 December 2014 was £26.059m (unchanged from previous quarter). All of this debt was at fixed rate with the remaining principal having an average rate/life of 4.231%/31.08 years.

Loan Rescheduling

3.10 No debt rescheduling was undertaken during the quarter.

Borrowing in Advance of Need

3.11 External borrowing of £26.059m as at 31 December 2014 exceeds the revised Capital Financing Requirement (CFR) figure of £22.582m, which reflects that borrowing of £3.362m has been taken out in advance of spending. This is as a result of slippage against the 2013-14 capital programme being more than forecast. At this time this does not represent a breach of prudential indicators, as borrowing is permitted to be above current CFR as long as future CFR estimates for current and next two financial years will utilise these loans. The Authority also maintains an Authorised Limit i.e. £31.120m and as loans fall below this, there is no immediate action required.

New Borrowing

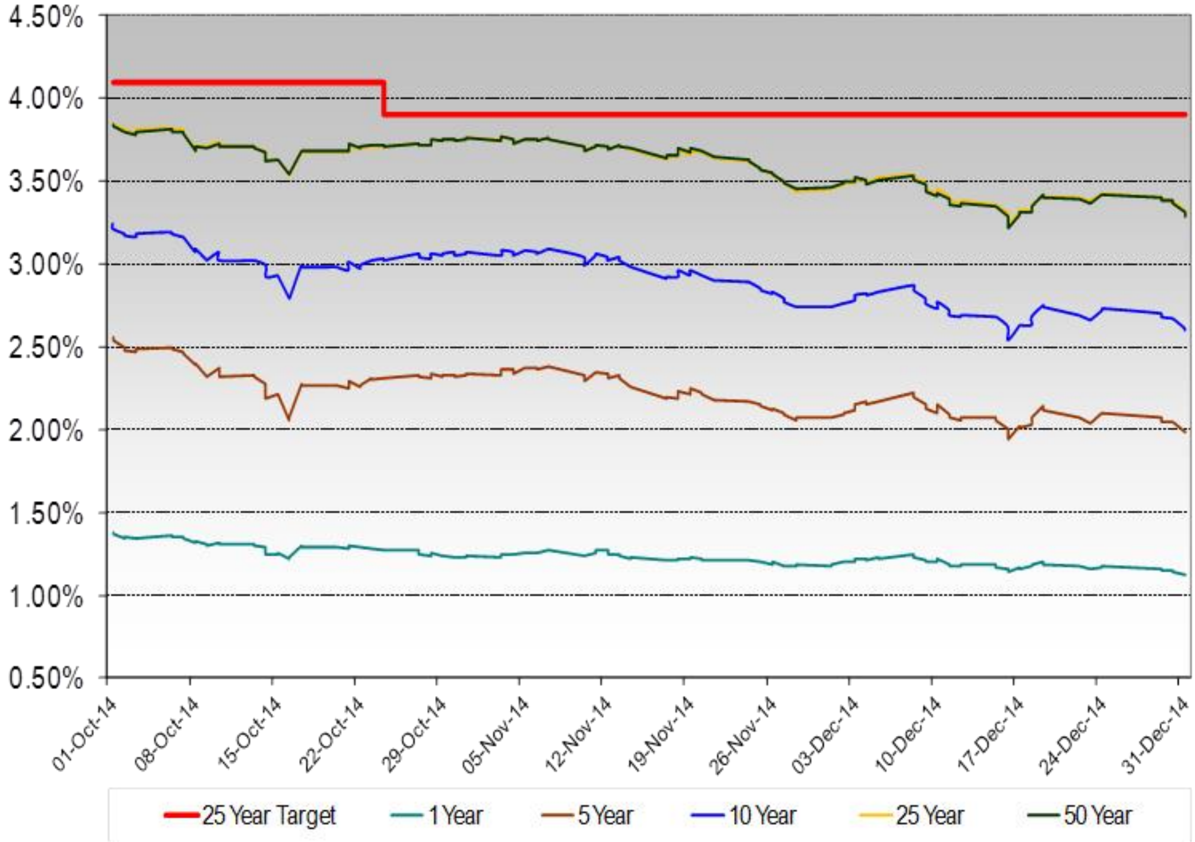
3.12 The 25 year PWLB target (certainty) rate for new long term borrowing fell from 4.10% to 3.90% in late October 2014. No new borrowing was undertaken during the quarter and none is planned during 2014-15. It is anticipated that use of internal borrowing and available grants will avoid the need to borrow from the PWLB in year; however this will be subject to certainty rates on offer and the delivery of the capital programme.

3.13 PWLB certainty rates for the quarter ended 31 December 2014 are shown overleaf. DSFRA is eligible to borrow at certainty rates.

PWLB rates quarter ended 31.12.2014

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.12%	1.94%	2.54%	3.24%	3.22%
Date	31/12/2014	16/12/2014	16/12/2014	16/12/2014	16/12/2014
High	1.38%	2.56%	3.24%	3.85%	3.84%
Date	01/10/2014	01/10/2014	01/10/2014	01/10/2014	01/10/2014
Average	1.24%	2.23%	2.91%	3.60%	3.60%

3.14 Borrowing rates for this quarter are shown below.



4. SUMMARY

4.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides members with the third quarter report of the treasury management activities for 2014-2015 to December 2014. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken so far, with priority being given to liquidity and security over yield.

4.2 Whilst investment returns are still low as a consequence of the fall in interest rates, the Authority is anticipating that investment returns will over achieve the budgeted target.

KEVIN WOODWARD
Treasurer

	Investments as at 31 December 2014				
Counterparty	**Maximum to be invested**	**Total amount invested**	**Call or Term**	**Period invested**	**Interest rate(s)**
	£m	**£m**			
Bank of Scotland	5.000	2.000	T	6 mths	0.70%
		1.500	T	1 yr	0.95%
		1.500	T	6 mths	0.70%
Barclays	10.000	2.000	T	6 mths	0.45%
		3.000	T	6 mths	0.61%
		2.000	T	6 mths	0.60%
Goldman Sachs	5.000	5.000	T	3 mths	0.45%
Nationwide B/S	2.000	2.000	T	6 mths	0.63%
National Westminster Bank	5.000	5.000	T	3 mths	0.40%
Svenska Handelsbanken	5.000	0.010	C	Instant Access	Variable
Ignis Sterling Liquidity Money Market Fund	5.000	5.000	C	Instant Access	Variable
Black Rock Money Market Fund	5.000	0.639	C	Instant Access	Variable
Total invested as at 31 December 2014		**29.649m**			

REPORT REFERENCE NO.	**RC/15/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2015**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2015-16 TO 2017-18**
LEAD OFFICER	**Chief Fire Officer and Treasurer**
RECOMMENDATIONS	***That the Devon and Somerset Fire and Rescue Authority be recommended:*** ***(i) to approve a minimum revenue contribution of £1.737m from the 2015-16 revenue budget towards financing of the capital 2015-16 to 2017-18 capital programme.*** ***(ii) to approve the draft Capital Programme 2015-16 to 2017-18 and associated Prudential Indicators, as detailed in the report and summarised at Appendices A and B respectively to this report; and*** ***(iii) to note the forecast impact of the proposed Capital Programme (from 2018-19 onwards) on the 5% debt ratio Prudential Indicator as indicated in this report.***
EXECUTIVE SUMMARY	This report sets out the proposals for a three year Capital Programme covering the years 2015-16 to 2017-18 and also outlines the difficulties in meeting the full capital expenditure requirement for this Authority, given its size, number of fire stations and fire appliances required to be maintained and eventually replaced. All aspects of the programme have been considered, and been constructed based on the principle that debt charges emanating from external borrowing is kept within the 5% Prudential Indicator limit (debt charges as a percentage of the Revenue Budget). The Committee has been advised over recent years of the difficulties in maintaining a programme that is affordable within the 5% Prudential Indicator against a reducing revenue budget, and has supported the Treasurers recommendation that the Authority should seek alternative sources of funding other than external borrowing to support future capital investment. This report proposes that a further revenue contribution, minimum of £1.737m, be made from the 2015-16 revenue budget towards capital spending. To inform longer term planning the Prudential Indicator has been profiled for a further three years beyond 2017-18 based upon indicative capital programme levels for the years 2018-19 to 2020-21.
RESOURCE IMPLICATIONS	As indicated within the report.

EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Summary of Proposed Capital Programme 2015-16 – 2017-18 (and indicative Capital Programme 2018-19 to 2020-21). B. Prudential Indicators 2015-16 – 2017-18 (and indicative Prudential Indicators 2018-19 to 2020-21).
LIST OF BACKGROUND PAPERS	None

1. INTRODUCTION

1.1 Each year the Capital Programme is reviewed and adjusted to include new projects and those carried forward, allowing the capital investment needs of the Service to be understood over a three year rolling programme. In constructing the programme, considerable effort is made to ensure that the impact of borrowing is maintained below the 5% ratio of financing costs to net revenue stream – one of several Prudential Indicators previously agreed by the Authority. However, the capital investment demands of the Service coupled with the impact of a reducing revenue base on the Service's ability to borrow whilst maintaining debt charge below this ceiling has made the allocation of funds between the main cost centres of fleet and estates increasingly difficult.

1.2 The Department for Communities and Local Government (DCLG) has for many years provided some direct grant funding to fire and rescue authorities for capital purposes. In 2013-14 and 2014-15 an amount of £70m had been made available in each year, part distributed on a pro-rata basis (population) and part subject to a bidding process. The Authority was allocated an amount of £1.4m in each year from the pro-rata distribution allocation. Unfortunately, the submission of a bid in 2013 by the Service in support of the introduction of the Light Rescue Pump (LRP) was unsuccessful.

1.3 For 2015-16, the DCLG had announced that an amount of £45m will be made available for capital purposes and that it will all be subject to a bidding process based upon transformational projects. Unfortunately the Authority bid for support of £3.9m towards the LRP project was again rejected. This means that for 2015-16 the Authority will receive no direct grant funding towards its capital investment needs.

1.4 Up until 2013-14, Devon and Somerset Fire and Rescue Authority (DSFRA) capital funds have predominantly been directed towards specific Estates projects culminating in the Training Academy build at Exeter Airport. This reduced the available budget for the vehicle replacement programme, thereby creating a significant backlog. However, from 2013-14 the Estates programme was significantly reduced to accommodate the reinstatement of the fleet programme and to fund the introduction of smaller type appliances into the Service as soon as possible.

1.5 Given the loss of government grant funding in 2015-16 (£1.4m in 2014-15) and to support the need to keep external borrowing within affordable limits, it is proposed that a revenue contribution be made from the 2015-16 revenue budget to support capital spending.

1.6 It should be recognised, however, that the proposed programme does come with some risk in terms of progression of the Programme from 2018-19 onwards. The Authority will inevitably require the identification of further funding streams other than reliance on further external borrowing, in order to maintain the Authority stance on the 5% Prudential Indicator.

2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

2.1 As far back as 2008, a report (8th December 2008 - RC/08/10) "Affordable Capital Investment Plans for 2009-2010 to 2011-12" was submitted to the Resources Committee. This report was regarding the instigation of a principle that debt repayments be kept below 5% of the total revenue budget (Minute *RC/15) refers). This may well be breached in future years for two reasons:

- as a consequence of the need for additional capital investment, and;
- as a result of future revenue budgets being lower than originally forecast as a consequence of the government austerity measures - now anticipated to continue to at least 2018-19.

This, along with the removal of government grant, has a direct impact on the Capital Programme going forward.

2.2 The tests of affordability are measured by compliance with the Chartered Institute of Public Financial Accountants (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 by the Fire and Rescue Authority on 24 February 2014 (Minute DSFRA/45 refers) when setting the existing capital programme.

2.4 The proposed programme, as contained in this report, increases the external borrowing requirement to £29.6m by 2017-18, increasing the debt ratio to 4.45%. This compares to a current external borrowing of £25.9m as at 31 March 2015. Looking further ahead the external borrowing requirement is forecast to increase to £33.8m by 2020-21.

2.5 Whilst a debt of £33.8m is not considered excessive for this size Authority, given the large size of the asset portfolio, it is clear that the Authority will need to closely monitor its exposure to further debt levels as the Service moves forward. The Service needs to ensure that the debt levels are affordable in the context of a reducing budget and the ability to service debt repayments.

2.6 The focus of this Authority over many years has been to control spending within the 5% limit. To achieve this, the Service has reduced the spend on the appliance replacement programme to support Estates projects, utilising revenue funding wherever possible. As a consequence, the fleet programme was recommenced in 2014/15. The extent to which this can be achieved over the next few years will be subject to affordability as measured by the Prudential Indicators.

2.7 With increasing scrutiny on capital, the revised programme has again been constructed on the basis of keeping the debt ratio within the 5% limit. To achieve this, the Estates programme includes no provision for any new major projects in 2015-16 and proposes a reduction in the provision for minor improvements and structural maintenance over the next three years, to meet obligations within the fleet replacement programme.

2.8 Elsewhere on the agenda for this meeting is a separate report "2015-16 Revenue Budget and Council Tax Levels" which makes provision for a revenue contribution towards capital of £1.737m; potentially rising to £2.118m should the Authority be minded to approve Option B within that report (1.99% increase in Council Tax).

2.9 It should be noted that approval of this proposed programme does not address the Service's entire capital investment backlog, and the position will need to be reviewed on an annual basis subject to the overall financial position of the Authority.

3. SERVICE ESTATES

3.1 Whilst combination provided many benefits, the Estates department inherited additional building stock with no increase in budget or staffing, limiting the ability of the department over recent years. As a consequence the department was subject to a review in 2013 and has been re-structured, which is contributing towards improvements in ways of working and associated efficiencies.

3.2 The budget for Estates does continue, however, to remain insufficient for the Authority's extensive property portfolio and associated maintenance requirements. After significant and extensive officer scrutiny, it is proposed that 2015/16 is a year of assessing future requirements and how these may best be met rather than undertaking major projects at this stage. It is, however, recognised that many of the Service's sites are in need of significant investment and through this year it is intended to scope options and then consider how best to meet the operational requirement for the future. The scale of the financial pressures simply means that the Service needs to review fundamentally each and every one of our 90 sites and in order to do this thoroughly, the estates team will need time to consider and plan future arrangements as well as respond to immediate maintenance issues that will occur in year.

3.3 As such, in seeking to present the Authority with an affordable programme, for the third year, no new major projects are included to commence in a build phase in 2015/16 but planning and detailed proposals are likely to emerge and will be reported to the Capital Working Party and Resources Committee/ Full Authority as appropriate. The provision for minor improvements and structural maintenance has also been reduced beyond the planned level of £0.250m over three years.

4. OPERATIONAL ASSETS

Vehicle Replacements/Equipment

4.1 The Authority has the second largest fleet of all fire and rescue services in England. In recent years the budget had been reduced in support of the Estates programme, whilst evaluating new vehicles, creating a significant backlog in vehicle replacement. The programme was reinstated last year providing the necessary funding for the investment in the LRP programme over the next few years. At the same time, 2015/16 will be a year where the Service pilots a range of new vehicles, engaging and involving staff and trade unions in the process and this work will directly inform future capital requirements for our fleet.

4.2 In matching 'resources to risk' a further pilot is being undertaken within 2015/16 for the Rapid Intervention Vehicle which is integral to the future fleet arrangements within Tier 1. Subject to the outcome it is proposed to introduce this vehicle within 2016/17, thereby reducing the future fleet costs further.

Light Rescue Pumps

4.3 It was planned that funding for the introduction of the Light Rescue Pump (LRP) would be part funded from government grant. The Minister reported last year that the grant would be:

- an efficiency fund, administered as a capital grant via a bidding process, and
- a pro-rata distribution using the current distribution method.

4.4 The Service submitted a bid for £4.7m over a two year period to offset future borrowing costs. However our bid of was not successful which has had an impact on capital borrowing overall. Subject to the outcome of the Rapid Intervention Vehicle the LRP programme may be revised for future years. To assist with maintaining our borrowing below 5% it is proposed to make a £1.7m contribution from revenue towards this programme.

4.5 The LRP programme remains the bedrock of the Authority's future fleet replacement strategy for introducing 'Tiered Response'; meeting future service delivery arrangements with a more cost effective vehicle, improved service to local communities, along firefighter safety. The capital programme has been adjusted to support this programme, recognising that this may be revised subject to the outcome of the Rapid Intervention Vehicle pilots.

Breathing Apparatus Replacement Programme

4.6 There is an operational need to harmonise the breathing apparatus equipment between Somerset (Scott Sabre) and Devon (InterSpiro) and a full business case has been developed to consider the most appropriate and cost effective options. The programme for 2013-14 indicated that an estimated £1.4m would be required for the harmonisation Breathing Apparatus (BA) equipment in 2013-14.

4.7 However, whilst financial provision has been made to purchase BA, a Respiratory Protection strategy is being developed that will consider all aspects of respiratory protection for operational staff. This will also consider the use of telemetry. The figure for the purchase of BA has been revised to £0.884m in the light of the latest information on indicative costs.

5. REVISED CAPITAL PROGRAMME FOR 2015-16 – 2017-18

5.1 Appendix A provides an analysis of the proposed programme for the three years 2015-16 to 2017-18 as contained in this report. This programme represents a net increase in overall spending of £0.3m over the previously agreed programme as illustrated in Figure 1 overleaf

	Estates £m	Fleet & Equipment £m	Total £m
EXISTING PROGRAMME			
2014-15	2.4	4.7	7.1
2015-16	2.5	4.5	7.0
2016-17(provisional)	1.5	3.3	4.8
2017-18(provisional)	1.8	3.2	5.0
Total 2014-15 to 2017-18	8.2	15.7	23.9
PROPOSED PROGRAMME			
2014-15	1.8	2.7	4.4
2015-16	1.9	6.3	8.2
2016-17(provisional)	2.6	3.6	6.2
2017-18(provisional)	2.0	3.3	5.3
Total 2014-15 to 2017-18	8.4	15.8	24.2
PROPOSED CHANGE	**0.2**	**0.1**	**0.3**

Figure 1

5.2 The increase of £0.3m spending for Estates relates to an Authority decision at its meeting on the 5th November 2014 to increase the 2014-15 programme to be funded from a revenue contribution.

5.3 Appendix A also provides indicative capital requirements beyond 2017-18 up to 2020-21. The estimated debt charge emanating from this revised spending profile is illustrated in Figure 2. These figures, which already include the impact of the proposed revenue contribution of a minimum of £1.737m from the 2015-16 revenue budget, on the basis that the proposal is agreed, are reflected in the draft 2015-16 revenue budget and Medium Term Financial Plan (MTFP) forecasts.

Summary of Estimated Capital Financing Costs

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Base budget for Capital Financing costs Debt charges and operating leasing rentals	4.626	4.377	4.069	4.314	4.414	4.914	5.214	5.564
Change over previous year		-0.249	-0.308	0.245	0.100	0.500	0.300	0.350
Debt ratio	3.75%	3.70%	3.80%	4.32%	4.45%	5.02%	5.44%	5.77%

Figure 2

5.4 The forecast figures for external debt and debt charges beyond 2017-18 are based upon the indicative programmes as included in Appendix A for the years 2018-19 to 2020-21. The affordability of these programmes will need to be subject to annual review based upon the financial position of the Authority.

6. **PRUDENTIAL INDICATORS**

6.1 Appendix B provides a summary of the Prudential Indicators associated with this level of spending over this period. It is forecast that Capital Financing Requirement (the need to borrow to fund capital spending) will have increased from current levels of £25.9m to £33.8m (including impact of proposed revenue contribution of £1.737m) by 2021. Figure 3 below provides further analysis of forecast borrowing for each year.

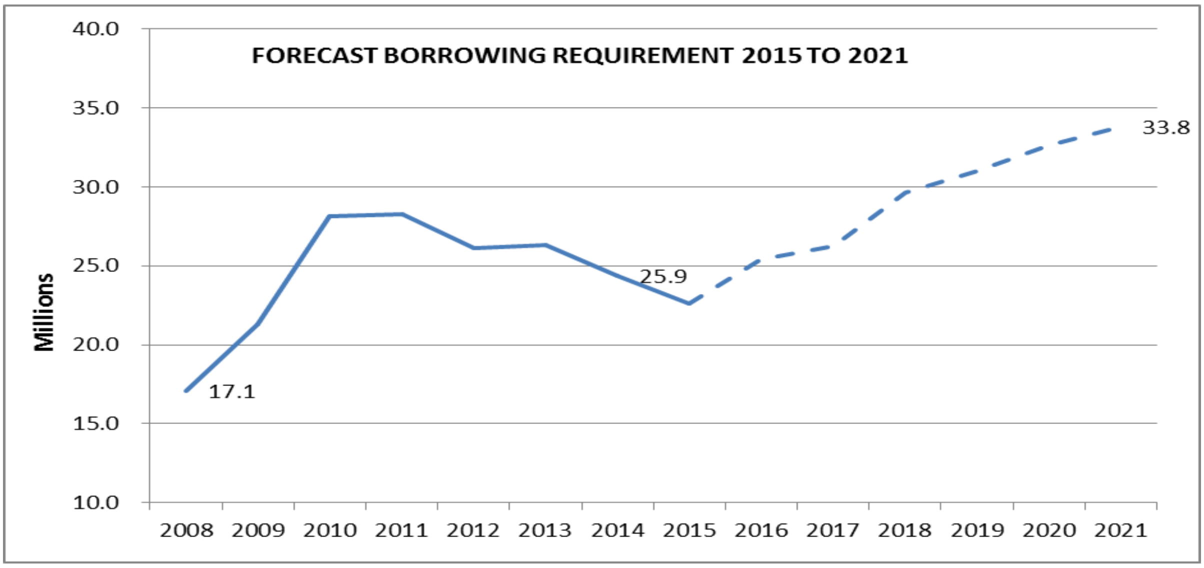


Figure 3

6.2 The reducing revenue budget impacts significantly upon the borrowing capacity of this Authority. Whilst the programme now presented maintains borrowing within 5% to 2017-18, it does come with a risk that this could be breached from 2018-19 onwards albeit that the Service considers it has measures in place to mitigate against this. Previous Capital Programmes and the borrowing profile have been reasonable and affordable.

6.3 The Treasurer has reported previously that given the size of the DSFRA asset portfolio a borrowing profile at £33.8m is not deemed to be excessive. However reducing the programme for the next three years and providing a further revenue contribution of a minimum of £1.737m keeps the consequences of borrowing below 5% and maintains the Service debt exposure to £29.4m up until 2017-18.

7. **CONCLUSION**

7.1 This report emphasises the difficulties in meeting the full capital expenditure requirement for the Service, given the geographical size, number of fire stations and fire appliances required to be maintained and eventually replaced, and also keeping debt charges within the 5% limit. Indications are that there is a risk that this limit is breached by 2018-19 (5.02%). However, the programme proposed in this report does not commit any spending beyond 2017-18. Decisions on further spending will be subject to annual review based upon the financial position of the Authority.

7.2 The proposed capital programme for 2015-16 to 2017-18 as set down in Appendix A limits future spending whilst providing towards reducing the fire appliance replacement backlog. The programme is therefore recommended for approval.

LEE HOWELL
Chef Fire Officer

KEVIN WOODWARD
Treasurer

Capital Programme 2015/16 to 2020/21

2014/15 £000 Opening budget	2014/15 £000 Revised Budget	Item	PROJECT	2015/16 £000 Budget	2016/17 £000 Budget	2017/18 £000 Budget	2018/19 £000 Indicative Budget	2019/20 £000 Indicative Budget	2020/21 £000 Indicative Budget
			Estate Development						
420	91	1	Major Projects	329	0	0	0	0	0
2,965	1,679	2	Minor improvements & structural maintenance	1,616	2,640	2,040	1,750	1,750	1,500
3,386	**1,770**		**Estates Sub Total**	**1,945**	**2,640**	**2,040**	**1,750**	**1,750**	**1,500**
			Fleet & Equipment						
3,640	1,984	3	Appliance replacement	4,089	2,837	2,557	1,438	2,119	2,119
36	100	4	Community Fire Safety	0	0	0	0	0	0
50	104	5	Specialist Operational Vehicles	480	400	400	0	0	0
1,619	481	6	Equipment	1,391	320	320	380	200	200
250	0	7	ICT Department	250	0	0	0	0	0
100	7	8	Water Rescue Boats	93	0	0	0	0	0
5,695	**2,676**		**Fleet & Equipment Sub Total**	**6,302**	**3,557**	**3,277**	**1,818**	**2,319**	**2,319**
9,081	**4,446**		**Overall Capital Totals**	**8,247**	**6,197**	**5,317**	**3,568**	**4,069**	**3,819**
			Programme funding - no council tax increase						
368	236	9	Earmarked Reserves	471	0	0	0	0	0
4,467	2,812	10	Revenue funds	3,175	3,362	0	0	0	0
2,848	0	11	Borrowing	4,601	2,835	5,317	3,568	4,069	3,819
1,398	1,398	12	Grants						
9,081	**4,446**		**Total Funding**	**8,247**	**6,197**	**5,317**	**3,568**	**4,069**	**3,819**
			Programme funding - council tax increase of 1.99%						
368	236	13	Earmarked Reserves	471	0	0	0	0	0
4,467	2,812	14	Revenue funds	3,175	3,362	0	0	0	0
0	0	15	Additional revenue funds	381	0	0	0	0	0
2,848	0	16	Borrowing	4,220	2,835	5,317	3,568	4,069	3,819
1,398	1,398	17	Grants						
9,081	**4,446**			**8,247**	**6,197**	**5,317**	**3,568**	**4,069**	**3,819**

PRUDENTIAL INDICATORS

				INDICATIVE INDICATORS 2017/18 to 2019/20		
	2015/16 £m estimate	2016/17 £m estimate	2017/18 £m estimate	2018/19 £m estimate	2019/20 £m estimate	2020/21 £m estimate
Capital Expenditure						
Non - HRA	8.247	6.197	5.317	3.568	4.069	3.819
HRA (applies only to housing authorities						
Total	8.247	6.197	5.317	3.568	4.069	3.819
Ratio of financing costs to net revenue stream						
Non - HRA	3.80%	4.32%	4.45%	5.02%	5.44%	5.77%
HRA (applies only to housing authorities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000	£000
Non - HRA	25,422	26,275	29,655	30,998	32,618	33,823
HRA (applies only to housing authorities	0	0	0	0	0	0
Other long term liabilities	1,443	1,374	1,299	1,209	1,112	1,010
Total	26,865	27,649	30,954	32,207	33,730	34,833
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	2,774	784	3,305	1,253	1,523	1,103
HRA (applies only to housing authorities	0	0	0	0	0	0
Total	2,774	784	3,305	1,253	1,523	1,103
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	-£0.17	-£0.13	-£0.36	N/A	N/A	N/A
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT						
Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	30,926	32,312	34,101	35,373	36,729	38,144
Other long term liabilities	1,371	1,278	1,177	1,070	963	842
Total	32,297	33,590	35,278	36,443	37,692	38,986
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	29,655	30,998	32,618	33,823	35,098	36,453
Other long term liabilities	1,299	1,209	1,112	1,010	907	791
Total	30,954	32,207	33,730	34,833	36,005	37,244

REPORT REFERENCE NO.	**RC/15/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2015**
SUBJECT OF REPORT	**2015-16 REVENUE BUDGET AND COUNCIL TAX LEVELS**
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 20 February 2015, an appropriate level of revenue budget and council tax for 2015-16.***
EXECUTIVE SUMMARY	It is a legislative requirement that the Authority sets a level of revenue budget and council tax for the forthcoming financial year by the 1 March each year. The Secretary of State has announced that the council tax threshold to be applied in 2015-16 that would trigger a requirement to hold a council tax referendum is to be 2.0%. This report considers two potential options A and B below for council tax in 2015-16. OPTION A – Freeze council tax at 2014-15 level **(£76.89 for a Band D Property).** OPTION B – Increase council tax by 1.99% above 2014-15 **(increase of £1.53 to £78.42).** 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 20 February 2015.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	Not applicable.
APPENDICES	A. Core Net Revenue Budget Requirement 2015-16. B. Letter of Representation sent to the CLG regarding the Provisional Local Government Finance Settlement. C. BMG Report on Precept Consultation for 2015-16 Revenue Budget (pages numbered and enclosed separately with the agenda for this meeting). D. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances.
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 2015-16. The purpose of this report is to provide the necessary financial background for consideration to be given as to what would be appropriate levels for the Authority.

1.2 The Localism Act 2011 includes new provisions which require a local authority to hold a council tax referendum where an authority's council tax increase exceeds the council tax "excessiveness principles" applied for that year. These new rules replace the previous capping regime where the government would impose a cap on council tax increases.

1.3 On the 18th December 2014 the DCLG announced, as part of the provisional Local Government Settlement that the council tax limit to be applied in 2015-16, which if exceeded would trigger the need to hold a referendum, is to be 2.0%.

1.4 Given that the administration costs associated with holding a local referendum for DSFRA for one year are estimated to be in the region of £2.3m, this report does not include any proposals to go beyond the referendum limit. Instead it considers two options, A and B below, of which the maximum proposed increase is 1.99%.

- **OPTION A** – Freeze council tax at 2014-15 level (£76.89 for a Band D Property).
- **OPTION B** – Increase council tax by 1.99% above 2014-15 (£78.42).

1.5 The 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 20 February 2015.

2. FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2015-16

2.1 The provisional Local Government Finance Settlement was announced on the 18th December 2014, which provided local authorities with individual settlement funding assessment figures for 2015-16. It should be noted that as a result of significant changes to the local government finance system introduced in 2013-14 which introduced the new Business Rates Retention Scheme, the new terminology attached to settlements is "Settlement Funding Assessment" (SFA), which replaces the previous "Formula Funding".

2.2 The SFA for this Authority results in a reduction in 2015-16 of 8.9% over 2014-15:

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

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

2.4 A reduction of £2.9m in 2015-16 means that DSFRA grant funding has been reduced by a total of £8.7m since 2012-13, equivalent to 22.8% meaning that the Authority has suffered the third worst settlement of all FRAs over this period. This is very surprising given that in the previous two years from 2010 the Authority had received the third best settlement, and that the formula used to distribute fire formula funding from 2014-15 included a sparsity factor for the very first time. Given that Devon and Somerset provides fire and rescue cover over the largest geographical area in the country, this Authority should have been one of the biggest gainers from the inclusion of the sparsity factor. It would appear, however, that other changes in the formula have worked against us.

2.5 A response to the provisional 2015-16 Local Government Finance Settlement announcement has been sent to the CLG on behalf of the Authority expressing our disappointment with the provisional settlement. A copy of this letter is attached as Appendix C.

2.6 The settlement announcement was for one year only due to the upcoming General election in May and therefore no illustrative SFA will be available for 2016-17 until publication of the settlement in December 2015.

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

3.1 Members will be aware of the new rules introduced in 2013-14 which requires an authority to hold a local referendum should it propose to increase council tax beyond a government set limit (principles). A referendum would need to be held on our behalf by all of the billing authorities in Devon and Somerset by May of the financial year in question. The administrative costs associated with holding such a referendum would have to be funded by the authority.

3.2 If the referendum results in a ‘yes’ vote then the increase will stand, 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 would need to be considered, the budget at the excessive council tax level, and a second “shadow budget” based on the government set limit for council tax increases.

3.3 Given that Band D council tax figures for fire and rescue authorities are relatively low, typically only 4% of the total council tax bill, DSFRA has argued with the Department of Communities and Local Government (CLG), that fire and rescue authorities should be exempt from this requirement as the costs associated with holding a referendum are disproportionate to the amount of additional precept gained from any increase. For this Authority the position is exacerbated by the fact that it has to liaise with fifteen billing authorities that would be required to hold referendums on its behalf, resulting in estimated referendum costs in the region of £2.3m. We have asked the DCLG to consider an alternative set of principles for fire and rescue authorities which would apply a cash amount, e.g. £5, rather than applying a percentage increase. Disappointingly the provisional settlement confirms that a percentage increase threshold will continue to be applied in 2015-16.

3.4 On the 18th December 2014 the DCLG announced the referendum threshold to be applied in 2015-16 is to 2.0%.

4. COUNCIL TAX AND BUDGET REQUIREMENT 2015-16

Council Tax

4.1 The government has again laid out its expectations that local authorities should freeze council tax in 2015-16 and to encourage this has again announced that it will pay a further Council Tax Freeze Reward Grant to those authorities that freeze, or reduce, council tax in 2015-16. This grant will be equivalent to an increase in council tax of 1.0%, estimated to be £0.489m (subject to confirmation of council tax base for 2015-16) for DSFRA.

4.2 The government has indicated that the reward grant, as in 2014-15, will be included in the baseline funding for future years, although this is not guaranteed this is the best we can expect given that it is very rare for a government to make commitments on behalf of future administrations.

4.3 It is of course still an Authority decision to set a level of council tax that is appropriate to its funding position, and indeed it is voluntary as to whether the Authority agrees to accept the grant available. Whilst DSFRA agreed to freeze council tax in 2011-12 and take the reward grant of £1.099m (equivalent to 2.5% increase in CT), for the last three years it agreed to reject the grant and increase council tax by 3.0% in 2012-13 (referendum limit 4.0%), and 1.99% in 2013-14 and 2014-15 (referendum limit 2.0%). The decision not to take the grant was largely taken in order to protect future funding baseline figures given that it had been suggested that the reward grant for 2012-13 and 2013-14 would be paid for one year only. In the event the CLG confirmed that the 2011-12 and 2013-14 reward grant would be included in baseline funding figures.

4.4 For 2015-16 the Authority has to decide whether it wishes to freeze council tax, and if not, decide on what level of increase is appropriate. Each 1% increase in council tax represents a £0.77p increase for a Band D property, and is equivalent to a £0.436m variation on the revenue budget. In relation to the referendum option it is my view that given the costs of holding a referendum (circa £2.3m) it is not a viable option for DSFRA to consider a council tax increase in excess of the 2% threshold. This report considers two options:

- **OPTION A** – Freeze council tax at 2014-15 level (£76.89 for a Band D Property).
- **OPTION B** – Increase council tax by 1.99% above 2014-15 (£78.42).

4.5 Each of the options will result in a reduction in the amount of revenue funding for 2015-16. Table 2 overleaf provides a summary of the reduction associated with each option, including additional precept income.

Please note that at the time of writing this report we are still awaiting some figures from some billing authorities relating to the amount of estimated business rates income in 2015-16 and therefore the figures in Table 2 will be subject to change. The impact of any changes will be reported at the meeting.

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

	OPTION A Council Tax Freeze at £76.89	OPTION B Council Tax Increase of 1.99% to £78.42
	£m	£m
TOTAL FUNDING 2014-15	**75.794**	**75.794**
Reduction in Formula Funding	-2.861	-2.861
Decrease in Retained Business Rates from new Business Rate Retention System.	-0.114	-0.114
Changes in Council Tax Precept		
- increase in Council Tax Base resulting from introduction of local Council Tax Benefit System and increase in number of properties	0.731	0.731
- resulting from an increase in Band D Council Tax	-	0.869
- 2015-16 Council Tax Reward Grant	0.489	-
- Increase in Share of Billing Authorities Council Tax Collection Funds	0.255	0.255
Net Change in precept income	**1.475**	**1.856**
TOTAL FUNDING AVAILABLE 2015-16	**74.294**	**74.675**
NET REDUCTION IN FUNDING	**-1.500**	**-1.119**

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

Option A would result in the largest reduction in spending in 2015-16 of £1.500m, and the reward grant of £0.489m will be included in future baseline funding figures.

Option B would result in a smaller reduction in spending in 2015-16 of £1.119m and the amount available from the 1.99% increase in council tax of £0.869m will be built into future years funding levels. This means that an additional £0.381m of spending is available over option A.

Council Tax Base

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

Net Budget Requirement

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

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

	£m	%
Approved Net Revenue Budget Requirement 2014-15	**75.794**	
PLUS Provision for pay and price increases (Pay award assumed 1.0% in 2015 for Firefighters)	0.708	*0.93%*
MINUS Removal of one off provisions in 2014-15	(2.649)	*-3.49%*
PLUS Inescapable Commitments	0.919	*1.21%*
PLUS Invest-to-Save Items - Community Safety Pilot scheme - Revenue Support to Capital Programme	 0.071 1.737	 *0.09%* *2.29%*
CORE SPENDING REQUIREMENT 2015-16	**76.579**	
INCREASE IN BUDGET OVER 2014-15 (£m)	**0.785**	***1.04%***

Invest-to-Save

4.9 A pilot is currently being run using dedicated community safety advocates and public campaigning in order to increase the number of Home Safety Checks that are carried out. There is a proven link between targeted prevention activity and a reduction to fire deaths and injuries. The intention of the new delivery model is to target more households who are at risk and therefore impart safety messages more effectively, improving public safety and reducing emergency call outs.

4.10 Elsewhere on the agenda is a separate report relating to the proposed capital programme 2015-16 to 2017-18. That report highlights the concerns of the Authority's reliance on increased borrowing to fund future capital investment requirements, particularly as a result of the lack of any government grant funding in 2015-16 since CLG are now issuing capital grant through transformational bid processes only. It is therefore recommended that the Authority supports revenue contributions to fund capital spending wherever possible in order to reduce borrowing requirement and therefore the resultant commitment required in the revenue budget to service debt charges.

4.11 It is therefore proposed that the revenue budget for 2015-16 includes provision for a direct revenue contribution towards capital spending therefore enabling debt charges to be maintained below the 5% Prudential Code limit up to 2017-18. Table 3 (Option A) above includes a contribution of £1.7m. Should Members be minded to approve Option B then it is proposed that the additional £0.381m of spending available is used to increase this contribution to capital to £2.1m.

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

Budget Savings

4.10 As is indicated in Table 3, the Core Budget Requirement for 2015-16 (which includes provision for pay and inflation, inescapable commitments and new investment) has been assessed as £76.579m. This is more than the amount of funding available under Options A or B and therefore budget savings need to be identified in order that a balanced budget can be set. Table 4 below identifies the savings target required and summarises how those targets would be achieved.

TABLE 4 – BUDGET SAVINGS REQUIRED 2015-16

	OPTION A £m
Budget Management Savings – As in previous years the budget setting process has included the requirement for budget managers to scrutinise non-operational budget heads with a view to the identification of recurring savings. This process and challenge by managers has identified £0.538m of recurring savings which can be removed from base budget. In addition managers will be expected to contain their expenditure within existing prices, by removing the inflationary element of non pay expenditure, which will save £0.090m	(0.636)
Retained Pay – Activity anticipated to reduce as a result of changes to the way that community schemes are run on stations: utilising volunteers and advocates.	(0.148)
Corporate Plan Proposals (operational) – The Corporate Plan proposals agreed by the Authority in July 2013 included the deletion of 149 operational posts to deliver £5m of on-going savings once fully implemented. However given that a strategy has been adopted to deliver this level of reduction without resort to compulsory redundancies it will take a number of years for this reduction to be fully achieved. An element of these staff numbers may be used in the transition of future staffing projects	(1.502)
TOTAL BUDGET SAVINGS (£m)	**(2.286)**

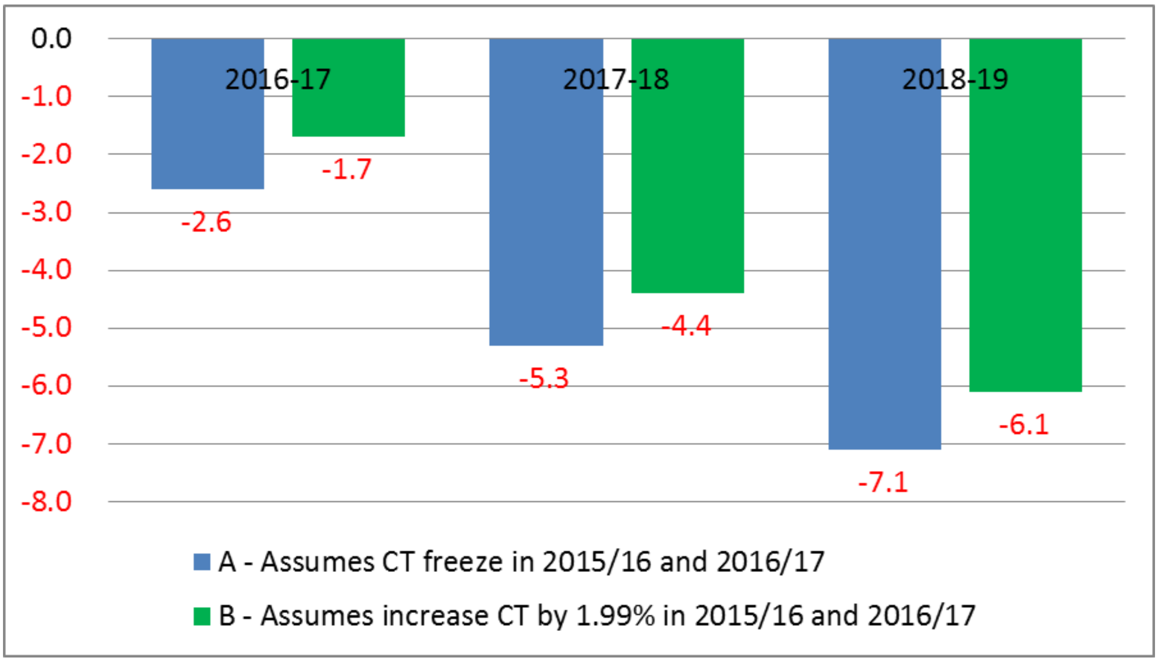
5. MEDIUM TERM FINANCIAL PLAN

5.1 As is stated earlier in this report, there is some uncertainty over the direction of travel following the May general election. Looking beyond 2015-16, the Chancellors' Autumn Statement in December 2014 confirmed that the austerity measures to reduce the structural deficit will need to continue until at least 2017-18. This means that the Medium Term Financial Plan (MTFP) needs to be planning for further significant reductions beyond the saving of £2.3m achieved in 2015-16.

5.2 Clearly it is difficult to provide forecasts into future years with absolute certainty, particularly in relation to future pay awards, inflationary increases and changes in pension costs. Key assumptions have therefore had to be made in our forecasts which will inevitably be subject to change. Prudent forecasts of future budgets can, however, be used to refresh the Authority's MTFP to inform financial planning and provide updated forecasts of the levels of budget reductions required by 2018-19 to balance the budget.

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

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



5.4 Chart 1 illustrates that further savings will be required over the next three years (forecast to be cumulative savings of circa £7.1m by 2018-19). As is stated earlier in this report each 1% increase in council tax results in additional precept of just under £0.4m. Should it be agreed to increase by a further 1.99% in 2016-17 (not subject to a decision at this meeting) then the saving target would be £0.9m less over the two years.

6. PLANS TO DELIVER SAVINGS 2015 TO 2019

Our Plan 2015 onwards

6.1 This budget report proposes a balanced budget for the next financial year 2015-16 including proposals as to how budget savings can be achieved.

6.2 The Corporate Plan to 2014 was approved by the Authority at its meeting held on the 10 July 2013. The Plan includes a range of proposals which when fully implemented will deliver total on-going savings of £6.8m. It is recognised, however, that this not all of this sum will be deliverable by 2015-16 as the speed at which it can be delivered will be dependent on the natural turnover of staff over the next two years. Savings of £1.5m are targeted to be achieved towards this total in 2015-16.

6.3 Officers are currently developing a range of proposals in order to achieve the required savings and meet our Integrated Risk Management Plan objectives. Consideration of proposals for further savings beyond 2015-16 will need to be subject to Authority consideration.

7. PRECEPT CONSULTATION 2015-16

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

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

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

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

7.4 Due to the project timescales of arranging, conducting, analysing and reporting on the public consultation it has not been possible to incorporate those results in this paper. The public consultation results will be reported together with these business survey results at the Authority meeting on 20 February 2015.

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

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

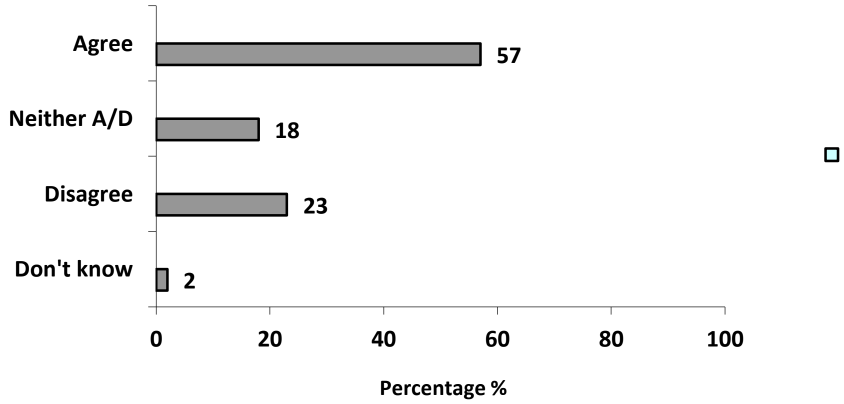
7.6 The business survey commenced in the week beginning Monday, 5 January 2015 and was undertaken by BMG Research. A summary of the results obtained from the business telephone survey are provided below. The full report produced by BMG Research can be provided on request.

RESULTS

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

7.7 The results for Question One, shown in Chart 1, illustrate that the majority of business respondents agreed that it would be reasonable for the Authority to consider increasing the precept to lessen the impact of funding cuts, despite Government's suggestion that local authorities do not increase council tax charges for 2015/16.

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



Count (unweighted)
Business responses 400

7.8 The 2015 results of the business survey show a slight increase over the 2014 survey in the level agreement for the Authority to consider an increase to the precept: up from 53% to 57%. The majority of this change reflects movement in opinion from 'disagreed' to 'agreed'.

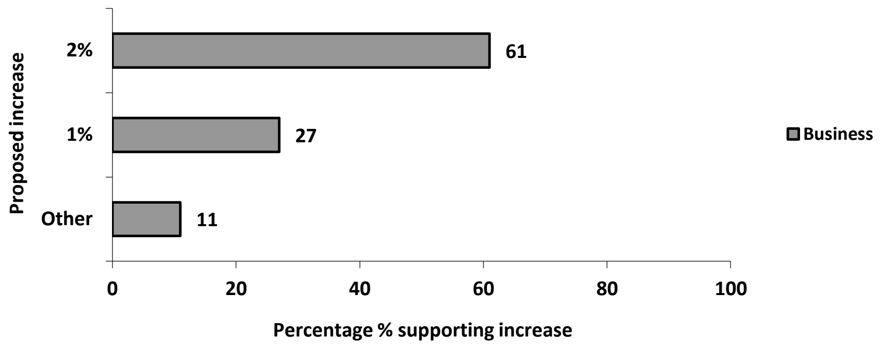
7.9 These results suggest support from businesses for the Authority to consider increasing the precept to minimise the impact of cuts to the government grant.

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

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

7.11 The majority of business respondents (61%) were in favour of a 2% increase to the precept as seen in Chart 2.

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



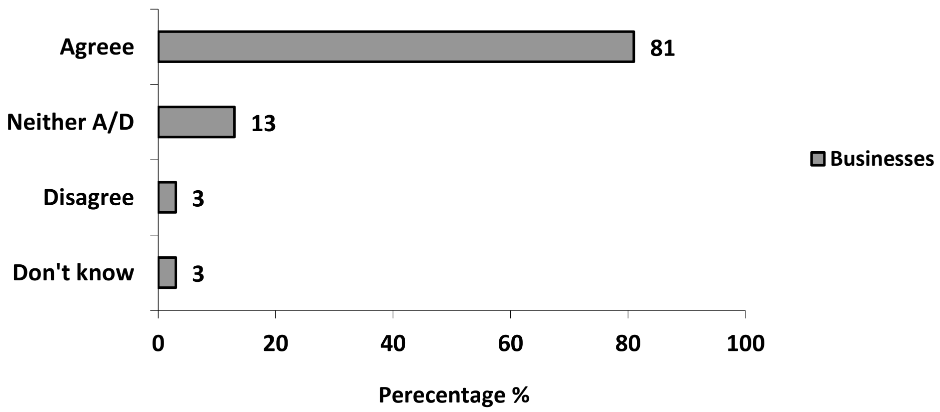
Count (unweighted): Business responses 232

7.12 Of those respondents who indicated an increase other than 2%, the majority suggested an increase greater than 2% (20 respondents), with figures ranging from 2.5% up to 10%. The most common suggestion was an increase of 5% (11 respondents).

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

7.13 A high percentage of business respondents agreed that the Service provides value for money, see Chart 3. The results to this question showed no change in the level of agreement from the 2014 survey results.

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

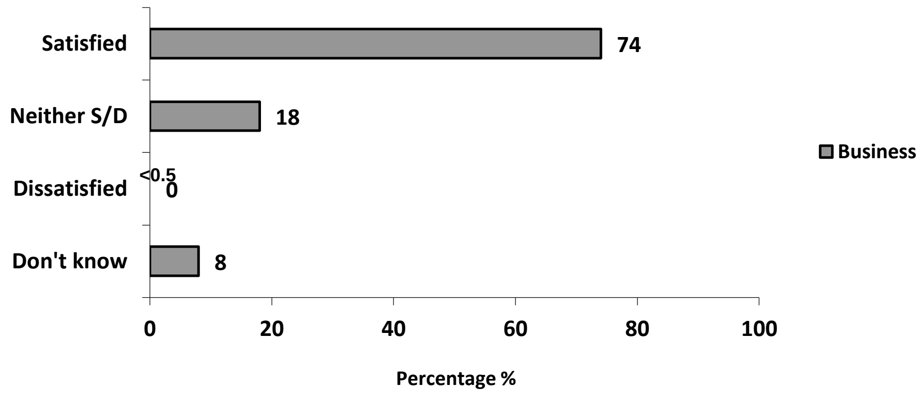


Count (unweighted): Business responses 400

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

7.14 Chart 4 shows that the majority of respondents were satisfied with the service provided by the Service. A slight decrease in satisfaction is observed in the results when compared to the 2014 survey: 74% compared to 78% satisfaction. Only one respondent expressed dissatisfaction but provided no explanation as to the reason.

Chart 4: Question 4 results of satisfaction with Service.



Count (unweighted): Business responses 400

CONCLUSION

7.15 The results of the consultation indicate that businesses feel it would be reasonable for the Authority to consider increasing its precept for 2015/16. Those who agreed that it would be reasonable were predominantly in favour of a 2% increase (61% of business respondents).

7.16 Large majorities of businesses believed that the Service provides value for money, at around £46 per head of the population per year, and were satisfied by the service provided by Devon and Somerset.

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

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

9. SUMMARY

9.1 The Authority is required to set its level of revenue budget and council tax for 2015-16 by 1 March so that it can meet its statutory obligation to advise each of the fifteen billing authorities in Devon and Somerset of the required level of precept. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for Devon and Somerset FRA.

9.2 The report considers two potential options A and B 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 20 February 2015.

KEVIN WOODWARD
Treasurer

LEE HOWELL
Chief Fire Officer

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

			2015/2016	
		£'000	£000	%
	Approved Budget 2014-15		**75,794**	
	Provision for pay and prices increase			
1	Uniformed Pay Award (assume 1.0% from July 2015)	441		
2	Non-uniformed Pay Award (2.2% from January 2015)	115		
3	Prices increases (assumed 1.2% CPI from April 2015)	126		
4	Pensions inflationary increase (1.2% from April 2015)	27		
			708	0.9%
	Removal One-off Provisions for 2014/15 only			
5	Change and Improvement Programme	-274		
6	Revenue Contribution to Capital	-1,815		
7	PPE refresh programme	-560		
			-2,649	
	Inescapable Commitments			
8	Pay increments and other pay changes	99		
9	Pension costs due to Ill Health and Injury on duty in 2015/16	650		
10	Other ongoing commitments	171		
			919	
	New Investment			
11	Community Safety Pilot Scheme	71		
12	Revenue Support for Capital borrowing	1,737		
			1,808	
	Savings in 2015-16			
13	Implementation of staffing reductions linked to changes agreed 2014	-1,502		
14	Reduction in Retained activity levels	-148		
15	Savings as a result of budget review	-546		
16	Savings due to removal of price rise allowance for 15/16	-90		
			-2,286	
	CORE BUDGET PROPOSAL		**74,294**	

Lee Howell QFSM FIFireE
CHIEF FIRE OFFICER

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

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

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

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

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

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

Dear Shafi,

CONSULTATION – PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2015-16

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

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

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

- The Authority is concerned that local government as a whole is again to suffer a disproportionate contribution to the deficit reduction programme compared to other public sector groups. The further reductions included in the 2015-16 settlement means total real terms reductions of 40% since 2010. This is not sustainable.

- The Authority is disappointed that the government continues to use headline figures relating to Spending Power, i.e. 1.8% reduction in 2015-16, which is very misleading as it includes a number of adjustments (e.g. Better Care Funding, council tax and ring fenced funding) and only serves to mask the true extent of cuts to be made to local authority budgets. Your own consultation document repeatedly refers to a 10% reduction in Local Government Department Expenditure Limit (DEL), and is the figure that local government is using to communicate with stakeholders.

- The Authority is also disappointed that whilst the findings of the newly commissioned report by LG Futures "Research into Drivers of Service Costs in Rural Areas" recognise that there is a positive relationship between sparsity and unit costs, it is not considered statistically significant to merit recognition in the formula settlement. Whilst we welcome the fact that additional funding has been allocated to the most rural local authorities, an allocation of just £81k for the Authority is very disappointing and does very little to redress the inequitable distribution in favour of the more urban areas. The Authority does not feel as though the rural arguments are being taken seriously enough.

- The Authority supports the All Party Parliamentary Group which is asking for the 50% gap in grant funding between urban and rural areas to be reduced in stages to 40% by the year 2020.

- The Authority is also disappointed that there has been no change in the council tax referendum rules to apply a different approach to fire and rescue authorities. We have asked that rather than a percentage limit that a cash sum, e.g. £5, be applied. The fact remains that because of the relatively low Band D council tax figures for a fire authority, typically only 4% of the total council tax bill for any area, the cost of holding the referendum would be totally disproportionate to the additional amount of precept that could possibly be achieved, meaning that no fire authority could possibly justify such an action. For the Authority, which has 15 billing authorities across Devon and Somerset, the cost of just holding the referendum has been estimated at £2.3m (equivalent to a 5.5% increase in council tax).

<u>Responses to Questions</u>

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

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

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

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

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

Question 3: Do you agree with the Government's proposal to reduce the New Homes Bonus holdback from £1bn to £950m?
<u>Response</u> – Yes.

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

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

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

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

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

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

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

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

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

Yours sincerely

Kevin Woodward
Treasurer to Devon and Somerset Fire and Rescue Authority

STATEMENT OF THE ROBUSTNESS OF THE BUDGET ESTIMATES AND THE ADEQUACY OF THE DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY LEVELS OF RESERVES

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

THE ROBUSTNESS OF THE 2015-16 BUDGET

The net revenue budget requirement for 2015-16 has been assessed as £74.294m. In arriving at this figure a detailed assessment has been made of the risks associated with each of the budget headings and the adequacy in terms of supporting the goals and objectives of the authority as included in the Corporate Plan. It should be emphasised that these assessments are being made for a period up to the 31st March 2016, in which time external factors, which are outside of the control of the authority, may arise which will cause additional expenditure to be incurred. For example, the majority of retained pay costs are dependent on the number of call outs during the year, which can be subject to volatility dependent on spate weather conditions. Other budgets, such as fuel are affected by market forces that often lead to fluctuations in price that are difficult to predict. Details of those budget heads that are most at risk from these uncertainties are included in Table 1 overleaf, along with details of the action taken to mitigate each of these identified risks.

TABLE 1 – BUDGET SETTING 2015-16 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO VOLATILE CHANGES

Budget Head	Budget Provision 2015-16 £m	*RISK AND IMPACT*	MITIGATION
Retained Pay Costs	12.4	A significant proportion of costs associated with retained pay is directly as a result of the number of calls responded to during the year. The level of calls from year to year can be volatile and difficult to predict e.g. spate weather conditions. Abnormally high or low levels of calls could result in significant variations against budget provision.	In establishing a General Reserve for 2015-16, allowance has been made for a potential overspend on this budget.
		In addition, negotiations are still outstanding relating to the outcome of the Part-Time Workers (less than favourable working conditions) tribunal, which during 2008 ruled in favour of retained firefighters having the same conditions of service in relation to pension and sickness benefits as wholetime firefighters. Given the significant number of retained firefighters employed by the Service, and the fact that this ruling will be backdated to the year 2000, this ruling will have a significant impact on the Service budget.	A 'Provision' of £2.1m has been set aside for the impact of the ruling from the Part Time Workers tribunal. However, until final negotiations are complete the full extent of the impact to the Service budget cannot be quantified. It is anticipated that further information on the full impact of this liability will become known throughout 2015-16 as members join the modified pension scheme.
Fire-fighter' s Pensions	2.9	Whilst net pension costs funded by the government through a top-up grant arrangement, the Authority is still required to fund the costs associated with ill-health retirements, and the potential costs of retained firefighters joining the scheme.	In establishing a General Reserve for 2015-16 an allowance has been made for a potential overspend on this budget
Insurance Costs	0.9	The Fire Authority's insurance arrangements require the authority to fund claims up to agreed insurance excesses. The costs of these claims are to be met from the revenue budget. The number of claims in any one-year can be very difficult to predict, and therefore there is a risk of the budget being insufficient. In addition some uninsured costs such as any compensation claims from Employment Tribunals carry a financial risk to the Authority.	In establishing a General Reserve for 2015-16 an allowance has been made for a potential overspend on this budget
Fuel Costs	0.8	Whilst the budget has made some allowance for further increases in fuel costs during 2015-16, due to current low fuel costs it is highly possible that inflationary increases could be in excess of the budget provided.	In establishing a General Reserve for 2015-16 an allowance has been made for a potential overspend on this budget
Treasury Management Income	-0.1	As a result of the economic downturn in recent years, and the resultant low investment returns, the ability to achieve the same levels of income returns as in previous years is diminishing. The uncertainty over future market conditions means that target investment returns included in the base budget could be at risk.	The target income for 2015-16 has been set at a prudent level of achieving only a 0.4% return on investments. Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Income	-1	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £1.0m of external income whilst reducing the reliance on the Service budget for Red One Income to £0.2m. Due to economic uncertainty this budget line may be at risk.	Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible.
Capital Programme	9.5	Capital projects are subject to changes due to number of factors; these include unforeseen ground conditions, planning requirements, necessary but unforeseen changes in design, and market forces.	Capital projects are subject to risk management processes that quantify risks and identify appropriate management action. Any changes to the spending profile of any capital projects will be subject to Committee approval in line with the Authority Financial Regulations.

Whilst there is only a legal requirement to set a budget requirement for the forthcoming financial year, the Medium Term Financial Plan (MTFP) provides forecasts to be made of indicative budget requirements over a four year period covering the years 2015-16 to 2018-19. These forecasts include only prudent assumptions in relation future pay awards and prices increases, which will need to be reviewed in light of pay settlements and movement in the Consumer Prices Index.

THE ADEQUACY OF THE LEVEL OF RESERVES

It should be noted that Combined Fire and Rescue Authorities have only had the legal power to hold reserves since 2004. This new power emanates from the legislative change from 2004 that gave Combined Fire and Rescue Authorities major precepting status. This being the case a strategy was adopted, by the then Devon FRA, to build Reserve levels up over a period of time, as the only funding available to build up the Reserve balance to recommended levels was to make contributions from the Revenue budget and in-year underspends.

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

The Authority has adopted an "in principle" strategy to maintain the level of reserves at a minimum of 5% of the revenue budget for any given year, with the absolute minimum level of reserves only being breached in exceptional circumstances, as determined by risk assessment. This does not mean that the Authority should not aspire to have more robust reserve balances based upon changing circumstances, but that if the balance drops below 5% (as a consequence of the need to utilise reserves) then it should immediately consider methods to replenish the balance back to a 5% level.

It is pleasing that the Authority has not experienced the need to call on reserve balances in the last five years to fund emergency spending, which has enabled the balance, through budget underspends, to be increased to a level in excess of 5%. The importance of holding adequate levels of general reserves was highlighted in recent years following the deterioration of the banking system and the loss of local authority investments from the Icelandic banks. Whilst this Authority was not directly impacted by the Icelandic bank situation (as these banks are not included on the list of financial institutions the Authority invests with), it was exposed by the problems of Northern Rock at the time that that bank was in trouble during 2007. As a consequence of the Icelandic bank position the Chartered Institute of Public Finance and Accountancy (CIPFA) immediately introduced a new Local Authority Accounting Principle in November 2008 (LAAP 77) bulletin to provide further guidance to local authority chief finance officers on the establishment and maintenance of local authority reserves and balances, which should be followed as a matter of course. Whilst this bulletin 'stopped short' of advising of a minimum level of reserves, it acted as a further reminder that it is for the authority, on the advice of the chief finance officer, to make their own judgements on such matters based upon local circumstances

The impact of flooding and the problems experienced by the global financial markets are just two examples, highlighted within the bulletin, of external risks which local authorities may need to take into account in setting levels of reserves and wider financial planning.

It should also be emphasised that a reserve level at 6.9% compares to an average reserve balance of 9.0% for all fire and rescue authorities, which places this Authority in the lower quartile for all FRAs.

Given the uncertainty over the scale of budget reductions that the Authority will be required to find over the next four years, it is my view that the Authority should seek to protect reserve balances as much as possible to provide added financial stability through the period of austerity..

CONCLUSION

It is considered that the budget proposed for 2015-16 represents a sound and achievable financial plan, and will not increase the Authority's risk exposure to an unacceptable level. The estimated level of reserves is judged to be adequate to meet all reasonable forecasts of future liabilities.

KEVIN WOODWARD
Treasurer

REPORT REFERENCE NO.	**RC/15/4**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2015**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2014-2015 – QUARTER 3**
LEAD OFFICER	**Treasurer to the Authority**
RECOMMENDATIONS	***(a)*** ***That it be recommended to the next meeting of the Fire and Rescue Authority that the budget virements outlined in paragraph 11.1 of this report be approved.*** *(b)* ***That subject to (a) above, the monitoring position in relation to projected spending against the 2014-2015 revenue and capital budgets be noted; and*** *(c)* ***That the performance against the other 2014-2015 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the third quarter performance (to December 2014) against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2014-2015 revenue budget with explanations of the major variations. At this stage in the financial year it is forecast that spending will be £1.130 (net of proposed budget virements to Earmarked Reserves contained in this report) less than budget, equivalent to 1.5% of the total budget. This overall saving is largely attributable to the implementation of the Corporate Plan changes agreed in July 2013, together with a strategy to work with budget holders to identify in-year savings against budget heads. At this stage no recommendations are made in relation to how this forecast saving is to be utilised.
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 2014-2015.
LIST OF BACKGROUND PAPERS	None.

1. INTRODUCTION

1.1 This report provides the third quarterly financial monitoring report for the current financial year, based upon the position as at the end of December 2014. As well as providing projections of spending against the 2014-2015 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 –PERFORMANCE AGAINST KEY FINANCIAL TARGETS 2014-2015

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 3	Previous	Quarter 3 %	Previous %
	Revenue Targets					
1	Spending within agreed revenue budget	£75.794m	£74.664m	£74.932m	(1.49%)	(1.13%)
2	General Reserve Balance as %age of total budget (minimum)	5.00%	6.85%	6.85%	(1.85)bp	(1.85)bp
	Capital Targets					
3	Spending within agreed capital budget	£7.504m	£4.446m	£5.557m	(40.75)%	(22.32)%
4	External Borrowing within Prudential Indicator limit	£22.582m *revised*	£25.944m	£25.944m	14.89%	10.73%
5	Debt Ratio (debt charges over total revenue budget)	3.85%	3.63%	3.65%	(0.22)bp	(0.20)bp

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

- **SECTION A** – Revenue Budget 2014-15.
- **SECTION B** – Capital Budget and Prudential Indicators 2014-15.
- **SECTION C** – Other Financial Indicators.

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

2. SECTION A - REVENUE BUDGET 2014-2015

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 by the year end will be £74.664m compared with an agreed budget figure of £75.794, representing a saving of £1.130m (£0.862m in Q2), and equivalent to 1.49% of the total budget.

2.2 It should be noted that the forecast spending figure is net of the proposed budget virements, as outlined in paragraph 11.1 of this report.

TABLE 2 – REVENUE MONITORING STATEMENT 2014-2015

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2014/15

Line No	SPENDING	2014/15 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)
	EMPLOYEE COSTS					
1	Wholetime uniform staff	29,349	22,747	21,750	29,329	(19)
2	Retained firefighters	12,444	9,037	8,880	12,489	46
3	Control room staff	1,630	1,217	1,220	1,665	35
4	Non uniformed staff	9,146	7,226	6,975	9,117	(29)
5	Training expenses	1,029	772	674	1,047	18
6	Fire Service Pensions recharge	2,211	1,836	1,773	2,187	(24)
		55,808	**42,835**	**41,271**	**55,835**	**27**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,408	1,056	891	1,252	(156)
8	Energy costs	626	421	419	563	(63)
9	Cleaning costs	443	332	380	414	(29)
10	Rent and rates	1,617	1,414	1,408	1,604	(13)
		4,094	**3,223**	**3,097**	**3,833**	**(261)**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	612	459	372	516	(96)
12	Running costs and insurances	1,329	1,055	1,338	1,309	(20)
13	Travel and subsistence	1,531	1,056	1,128	1,573	42
		3,472	**2,569**	**2,839**	**3,398**	**(74)**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,504	2,140	1,687	2,395	(109)
16	Hydrants-installation and maintenance	128	96	55	107	(21)
17	Communications	1,987	1,543	1,410	1,893	(94)
18	Uniforms	630	882	425	608	(22)
19	Catering	158	118	136	156	(2)
20	External Fees and Services	73	54	80	55	(18)
21	Partnerships & regional collaborative projects	136	102	47	186	50
		5,616	**4,936**	**3,840**	**5,400**	**(216)**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	349	277	208	291	(58)
23	Advertising	32	24	27	30	(2)
24	Insurances	372	362	444	298	(74)
		753	**663**	**679**	**619**	**(134)**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	601	420	529	674	73
		601	**420**	**529**	**674**	**73**
	CAPITAL FINANCING COSTS					
26	Capital charges	4,377	1,638	1,483	4,068	(309)
27	Revenue Contribution to Capital spending	2,206	-	-	2,206	-
		6,583	**1,638**	**1,483**	**6,274**	**(309)**
28	**TOTAL SPENDING**	**76,927**	**56,284**	**53,738**	**76,032**	**(894)**
	INCOME					
29	Treasury management investment income	(100)	(75)	(101)	(149)	(49)
30	Grants and Reimbursements	(2,370)	(1,817)	(1,956)	(2,361)	9
31	Other income	(768)	(576)	(672)	(1,083)	(315)
32	Internal Recharges	(40)	(30)	(11)	(21)	19
33	**TOTAL INCOME**	**(3,277)**	**(2,498)**	**(2,740)**	**(3,613)**	**(336)**
34	**NET SPENDING**	**73,650**	**53,785**	**50,998**	**72,419**	**(1,230)**
	TRANSFERS TO EARMARKED RESERVES					
35	Transfer to Earmarked Reserve	645	-	-	645	-
37	Capital Funding	1,500			1,600	100
		2,145	**-**	**-**	**2,245**	**100**
38	**NET SPENDING**	**75,794**	**53,785**	**50,998**	**74,664**	**(1,130)**

2.3 These forecasts are based upon the spending position at the end of December 2014, 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.

2.4 This projection for a significant underspend is largely attributable to savings on staffing costs primarily as a result of the continued implementation of the Corporate Plan changes agreed in July 2013. Members will recall that when fully implemented, these changes will deliver on-going savings of £6.8m. However it is recognised that this full saving would take a number of years dependent on the natural turnover of staff through retirements. At the last Resources Committee (November 2014) members agreed to transfer £1.5m of the underspend to Reserves and so budgets have been adjusted accordingly.

2.5 In addition all budget managers have been tasked by the Chief Fire Officer and Executive Board to reduce spending 'in year' and managers are responding accordingly.

2.6 Explanations of the more significant variations from budget (over £50k variance) are explained below in paragraphs 3 to 9.

3. EMPLOYEE COSTS

Wholetime Staff

3.1 At this stage it is projected that spending on wholetime pay costs will be £19k less than budget. It should be noted that this forecast has been adjusted by £1.0m to reflect the proposed budget virement as outlined in paragraph 11.1 of this report. It is anticipated that further savings will be made on this budget line due to deductions made for Industrial Action.

Retained Pay Costs

3.2 At this stage in the financial year spending is forecast to be over budget by £46k. 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. The projected over spend is due to increased costs to cover periods of Industrial Action.

3.3 As Members will be aware this budget heading is at risk pending further information on the number of retained firefighters (current and retired) who opt to join the firefighters pension scheme, and potentially back dated to the year 2000, as a consequence of the Employment Tribunal verdict which ruled in favour of retained staff under the Part Time Workers (Less than Favourable Working Conditions) Regulations. An options exercise is currently underway to identify the level of interest from retained staff which when completed will provide a more informed indication of the financial impact, both to current budget, and future pension arrangements.

3.4 The Authority has so far set aside an amount of £2m in a Provision which is ring fenced to be used to provide funding towards future pension liabilities, including the liability from the Employment Tribunal. The first stage of the options exercise has now been completed which has resulted in a total of 750 “expressions of interest” from both existing and already retired retained staff, which is significantly more than numbers used in the initial modelling. All individuals who expressed an interest have now been provided with estimates of pension benefits in order that decisions on joining the scheme can be made.

3.5 Individuals have until March 2015 to make this decision by which time we will have a much more informed position in order to assess the financial impact to the Service.

3.6 The Authority will be required to review the adequacy of Provision balances at the year-end to ensure that sufficient has been put aside to meet the liability. There is of course a risk that the £2m balance will prove to be insufficient to meet the eventual liability resulting in a need to enhance the Provision from this year’s underspend.

Non Uniformed Pay

3.7 It is forecast that savings of £29k will be achieved against non-uniformed pay costs primarily as a result of vacancy management during the year. The forecast now includes the 2.2% pay award from January 2015. Members will recall that in setting the budget for the current year this budget line has already been reduced by over £1m as a result of Management action taken to reduce the number of support staff by 41. It should be noted that this forecast is also net of the proposed budget virement of £0.5m as outlined in paragraph 11.1 of this report.

4. <u>PREMISES RELATED COSTS</u>

Repair and Maintenance

4.1 Forecast savings against budget of £156k for Repair and Maintenance are due to an anticipated reduction in the number of planned projects to be completed due to staffing vacancies in the Estates Department.

Energy Costs

4.2 Anticipated savings of £63k against Energy costs are due to weather variations and utility price inflation being lower than budgeted

5. <u>TRANSPORT RELATED COSTS</u>

Repair and Maintenance

5.1 At this stage in the financial year it is anticipated that fleet maintenance costs will be £96k under budget as a result of a reduction in the volume of repairs.

6. <u>SUPPLIES AND SERVICES</u>

Equipment and Furniture

6.1 It is forecast that delays in the implementation of some Change projects will result in an underspend against this budget line. The forecast under spend of £109k is net of a budget transfer of £350k to the Revenue Contribution to Capital Spending line, as outlined in paragraph 11.1 of this report

Uniforms

6.2 As previously reported to members, this budget line includes provision for the delivery of a major project in relation to the roll-out of the agreed replacement Personal Protective Equipment (PPE) of £0.546m. It is now confirmed that the procurement of these items will be delayed beyond the year end and therefore approval of the Committee is sought to transfer funds to an Ear-marked Reserve in year. Table 2 shows the position net of this transfer.

Communications

6.3 It is anticipated that there will be an underspend of £94k on communications. This is due to significant savings on the Airwave contract which is negotiated at a national level, although the saving is partially offset by a reduction in the reimbursement due from DCLG of £60k. The under spend of £94k is net of a proposed transfer to Earmarked Reserves of £70k.

7. SUPPORT SERVICES CONTRACTS

Payments to other authorities

7.1 Due to several unforeseen costs relating to contracts with other local authorities there is likely to be an over spend of £73k for support service contracts. Specifically this relates to the significant amount of pensions work not covered by our existing service level agreement for the modified and 2015 Pension Schemes, and an increase in the cost of welfare provision to staff.

8. CAPITAL FINANCING COSTS

Capital charges

8.1 Current forecast of spending on Capital Charges is £4.068m representing a saving of £309k. This is primarily as a consequence of slippage in capital spending in 2013-14 and 2014-15, resulting in a reduction in debt charges, and a reduction to lease charges.

Revenue contribution to Capital Spending

8.2 This budget line has been increased by an amount of £0.350m to reflect a proposed budget virement as outlined in paragraph 11.1 of this report relating to the Authority decision, at its December meeting, to pursue an asset acquisition to be funded from the current year underspend.

9. INCOME

Grants and Re-imbursements

9.1 As a result of an additional grant from the DCLG to cover the Airwave radio system it is now confirmed that grant income will be £58k lower than budget. However this is offset by a reduction in expenditure of £94k.

Other Income

9.2 It is anticipated that income targets from this budget head will be exceeded by £315k, of which £100k relates to forecast overachievement against commercial income targets. The remainder primarily relates to unbudgeted income from a seconded officer to another local authority, vehicle sales and successful recovery of court costs relating to investigations pursued by the Risk and Insurance Team.

10. TRANSER TO EARMARKED RESERVES

Transfer of In-year under spends for specific items

10.1 As previously notified to members, there has been uncertainty about whether a refresh of Personal Protective Equipment (PPE) would be made in year. It is now confirmed that due to specification and procurement timescales this will now go ahead in 2015-16. As outlined in paragraph 11.1 of this report it is proposed that an amount of £0.546m be transferred from the Uniforms budget to Earmarked Reserves in year to be utilised in 2015-16.

10.2 Similarly an amount of £70k had been included in the 2014-15 budget to enable upgrades to Service telephony equipment, however as this is not now due to go ahead until 2015-16 it is proposed that this amount is transferred from the Communications budget to Earmarked Reserves.

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Direct Revenue Contributions to Capital

10.3 Members agreed at the meeting of Resources Committee held on the 20 November 2014 that a further contribution of £1.5m towards capital spending would be made from the 2014-15 under spend and so budgets in Table 2 have been adjusted to reflect this.

10.4 **Commercial Income –** As outlined in paragraph 9.2 of this report the current forecast is that income from commercial activities will be £100k more than budgeted. The Authority has previously made an "in principle" decision that any income from commercial activities in excess of that budgeted be ring fenced to provide direct revenue funding toward capital spending. Table 2 reflects that a further transfer of £100k is made to the Earmarked Reserve for Direct Revenue Contributions to Capital at the year-end. It is hoped that this position will have improved by the year-end leading to a larger contribution.

11. BUDGET VIREMENTS

11.1 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 3 below provides details of proposed virements which exceed £150,000 and therefore require the approval of Fire and Rescue Authority.

TABLE 3 – REQUESTS FOR BUDGET VIREMENTs

Budget Line	From £m	To £m	Reason
Wholetime Uniform Staffing Costs (Table 2 Line 1) Non-Uniformed Staffing Costs (Table 2 Line 4) Transfer to Earmarked Reserves (Table 2 Line 37)	(1.000) (0.500)	 1.500	This virement reflects the decision made at the meeting of the Resources Committee on the 20 November 2014 (Minute RC/10) to transfer an amount of £1.5m from the current year underspend to Earmarked Reserves to provide direct revenue funding towards future capital spending. It is now proposed that the £1.5m be funded from budget virements from wholetime and non-uniformed staffing budget heads.
Equipment and Furniture (Table 2 Line 14) Revenue Contribution to Capital Spending (Table 2 Line 27)	(0.350)	 0.350	This virement reflects the decision made at the meeting of the full Fire Authority (Minute DSFRA/27) on the 17th December 2014 to pursue an asset acquisition in Plymouth to be funded from the current year underspend. It is now proposed that the total cost of £0.350m (including associated fees) be funded from a budget virement from savings against Equipment and Furniture.
Uniforms (Table 2 Line 18) Communications (Table 2 Line 27) Transfer to Earmarked Reserves (Table 2 Line 35)	(0.546) (0.070)	 0.616	The 2014-15 budget includes provision of £0.546m to fund a refresh of Personal Protective Equipment (PPE). It is now confirmed that due to specification and procurement timescales this will now be delayed into 2015-16. A budget virement for this amount is therefore proposed from the Uniforms budget head to Earmarked Reserves to enable the funding to carried forward into 2015-16.. Similarly provision of £0.070m had been made in 2014-15 for a required upgrade to the Service telephony system, however this will not now be delivered until 2015-16. A budget virement for this amount is therefore proposed from the Communications budget head to Earmarked Reserves.

11.2 For presentation purposes, the impact of these virements have been reflected in Table 2 on the basis that they are approved.

12. <u>RESERVES AND PROVISIONS</u>

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

Reserves

12.2 There are 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

12.3 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.

12.4 A summary of predicted balances on Reserves and Provisions is shown in Table 4. These figures include those proposed transfers to Earmarked Reserves outlined in paragraph 11.1 of this report.

TABLE 4 – FORECAST RESERVES AND PROVISION BALANCES 31 MARCH 2015

RESERVES AND PROVISIONS						
RESERVES	**Balance as at 1 April 2014 £000**	**Proposed Transfers £000**	**Spending to P9 £000**	**Projected Spend 2014-15 £000**	**Projected Balance as at 31 March 2015 £000**	
Earmarked reserves						
Grants unapplied from previous years	2,503	28	143	379	2,152	
Change & improvement programme	739		41	227	512	
Commercial Services	211		24	50	161	
Direct Funding to Capital	4,099	1,600	-	2,853	2,846	
CSR 2010	3,389		-	-	3,389	
Budget Carry Forwards	304	70	48	104	270	
Community Safety Investment	405		34	275	130	
PPE & Uniform Refresh	450	546	-	-	996	
Total earmarked reserves	**12,100**	**2,244**	**289**	**3,888**	**10,456**	
General reserve						
General fund balance	**5,191**				**5,191**	
Percentage of general reserve compared to net budget						6.85%
TOTAL RESERVE BALANCES	**17,291**				**15,647**	
PROVISIONS						
Fire fighters pension schemes	2,084				2,084	
PFI Equalisation	295				295	
TOTAL PROVISIONS	**2,379**	**0**	**0**	**0**	**2,379**	

***** *The CSR 2010 Reserve has been established to provide additional financial contingency during the period of austerity, which is now anticipated to go beyond the current CSR 2010 period until at least 2017-18. Given that the proposals within the Corporate Plan are to be implemented with no compulsory redundancies this Reserve will be utilised over the period of austerity measures to fund staffing costs, including voluntary redundancy costs, where required. It also provides further contingency in the event that government grant reductions are larger than included in the Authority Medium Term Financial Plan.*

13. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2014-15

Monitoring of Capital Spending in 2014-2015

13.1 Table 5 overleaf provides a summary of forecast spending against the 2014-2015 capital programme. Latest projection is for capital spending to be £4.446m (£5.557m in Q2) against a revised programme of £7.504m. It should be noted that the previously reported programme figure of £7.154m has been increased by £350k to provide for the purchase of 60 Crownhill Road in Plymouth from the Red Cross. It should be emphasised that this addition does not result in any increase in the external borrowing requirement and will be funded from Revenue under spend as detailed elsewhere in this report.

TABLE 5 – CAPITAL OUTTURN 2014-15

Capital Programme 2014/15

Item	PROJECT	2014/15 £000 Budget	2014/15 £000 Projected outturn	2014/15 £000 Variation to budget
	Estate Development			
1	SHQ major building works	58	1	(57)
2	Major Projects - Training Facility at Exeter Airport	320	91	(229)
3	Minor improvements & structural maintenance	1,062	475	(587)
4	Projects funded from Reserves	282	91	(191)
5	Minor Works slippage from earlier years	680	762	82
6	Projects funded from Revenue	350	350	-
	Estates Sub Total	**2,752**	**1,770**	**(982)**
	Fleet & Equipment			
7	Vehicles Slippage from 13/14	504	558	53
8	Equipment - Slippage from 13/14	415	268	(147)
9	Vehicle Replacement	2,557	1,542	(1,015)
10	Equipment	1,070	213	(857)
11	Projects funded from Reserves	195	85	(110)
12	Vehicles funded from revenue	11	11	-
	Fleet & Equipment Sub Total	**4,752**	**2,676**	**(2,076)**
	Overall Capital Totals	**7,504**	**4,446**	**(3,058)**
	Programme funding			
	Main programme	850	-	(850)
	Revenue funds	4,829	2,872	(1,956)
	Earmarked Reserves	427	175	(252)
	Grants	1,398	1,398	-
		7,504	**4,446**	**(3,058)**

Slippage in 2014-15

13.2 As is illustrated in Table 5 it is anticipated that there will be slippage against the 2014-15 programme. At this stage, slippage against projects is forecast to be £3.058m, an increase since Quarter 2 largely due to delayed delivery of a number of LRP Appliances and associated equipment. It is a common feature of capital spending that individual projects included in the programme can be subject to delays, for instance as a consequence of weather delays, or pending planning consents. Under the Prudential Code this does not cause any funding problems as slippage can be carried forward into the following years. In fact, slippage in capital spending has a positive impact against the revenue account in so much as it defers borrowing requirements and the associated debt charges.

Prudential Indicators (including Treasury Management)

13.3 Also included within Table 5 are details of how the forecast spending of £4.446m is to be financed, which illustrates that all of this spending is to be funded from revenue funding or government grants therefore avoiding the need to increase external borrowing requirements in 2014-15.

13.4 Total external borrowing with the Public Works Loan Board (PWLB) as at 31 December 2014 stands at £26.059m (as at the previous quarter), and is forecast to reduce to £25.944m by 31st March 2015 as a result of further principal repayments. This level of borrowing is well within the Authorised Limit for external debt of £31.120m (the absolute maximum the Authority has agreed as affordable). No further external borrowing is planned in this financial year.

13.5 Investment returns in the quarter yielded an average return of 0.45% which outperforms the LIBID 3 Month return (industry benchmark) of 0.43%. It is forecast that investment returns from short-term deposits is anticipated to exceed the budgeted figure of £0.100m by £49k by March 2015.

13.6 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2014-2015, which illustrates that there was no breach of any of these indicators.

14. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

14.1 Total debtor invoices outstanding as at Quarter 3 were £207,147 (previous quarter £159,709). Of this figure an amount of £48,019 (£54,069 as at 30 September 2014) was due from debtors relating to invoices that are more than 85 days old, equating to 23.18% (33.85% as at 30 September 2014) of the total debt outstanding. Table 6 below provides a summary of all debt outstanding as at 30 December 2014.

TABLE 6 – OUTSTANDING DEBT AS AT 31 DECEMBER 2014

	Total **£**	**%**
Current (allowed 28 days in which to pay invoice)	30,319	14.64%
1 to 28 days overdue	65,870	31.80%
29-56 days overdue	58,115	28.05%
57-84 days overdue	4,823	2.33%
Over 85 days overdue	48,020	23.18%
Total Debt Outstanding as at 31 December 2014	207,147	100.00%

13.2 Table 7 below provides further analysis of those debts in excess of 85 days old.

TABLE 7 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	**Total**	**Action Taken**
L Davies	1	£2,681	This relates to an overpayment to a former employee and payment by instalments has been negotiated.
Georgia Group	1	£43,938	This is a claim that relates to a breach of contract and refunds due to the Authority in relation to training courses not delivered. As previously reported this debt is subject to an agreed instalment plan which to date is being honoured.

Payment of Supplier Invoices within 30 days

13.3 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). Actual performance to the end of December 2014 was 88.98% compared to the previous reported figure of 86.03% as at 30 September 2014. This is an encouraging improvement to performance given that processing was shut down over the festive period, the Finance Team are working closely with administration staff across the Service to attempt to make further improvements.

13. SUMMARY AND RECOMMENDATIONS

13.1 At this stage it is forecast that revenue spending will be £1.130m less than the agreed budget figure for 2014-15, which aligns with the strategy adopted to deliver in-year savings where possible to be available to enhance Reserve balances and is as a direct result of planned projects being delayed.

13.2 Given this position and it is proposed that it be recommended to the next meeting of the Fire and Rescue Authority that:

(a) ***It be recommended to the next meeting of the Fire and Rescue Authority that the budget virements outlined in paragraph 11.1 of this report, be approved.***

(b) ***That subject to (a) above, the monitoring position in relation to projected spending against the 2014-2015 revenue and capital budgets be noted; and***

(c) ***That the performance against the other 2014-2015 financial targets be noted.***

KEVIN WOODWARD
Treasurer to the Authority

PRUDENTIAL INDICATORS 2014-2015

Prudential Indicators and Treasury Management Indicators	Outturn £m	Target £m	Variance (favourable) /adverse
Capital Expenditure	**4.446**	**7.504**	**(£3.058m)**
External Borrowing vs Capital Financing Requirement (CFR) - Total Borrowing Other long term liabilities	**27.453** 25.944 1.509	**24.091** 22.582 1.509	**£3.362m**
External borrowing vs Authorised limit for external debt - Total Borrowing - Other long term liabilities	**27.453** 25.944 1.509	**32.569** 31.120 1.449	**(£5.116m)**
Debt Ratio (debt charges as a %age of total revenue budget	**3.63%**	**3.85%**	**(0.22)bp**
Cost of Borrowing – Total Interest on existing debt as at 31-3-13 Interest on proposed new debt in 2013-14	**1.075** 1.075 0.000	**1.075** 1.075 0.000	**(£0.000m)**
Investment Income – full year	**0.138**	**0.100**	**(£0.038m)**
	Actual (31 Dec 2014) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.45%**	**0.43%**	**(0.03)bp**

Prudential Indicators and Treasury Management Indicators	31 March 2015) %	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	3.51%	30.00%	0.00%	(26.49%)
12 months to 2 years	0.99%	30.00%	0.00%	(29.01%)
2 years to 5 years	1.15%	50.00%	0.00%	(48.85%)
5 years to 10 years	5.03%	75.00%	0.00%	(69.97%)
10 years and above - 10 years to 20 years - 20 years to 30 years - 30 years to 40 years - 40 years to 50 years	**89.31%** 16.59% 13.62% 24.66% 34.45%	**100.00%**	**50.00%**	**(10.69%)**

REPORT REFERENCE NO.	**RC/15/5**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2015**
SUBJECT OF REPORT	**URBAN SEARCH AND RESCUE (USAR) GRANT REDUCTION**
LEAD OFFICER	**Director of Operations**
RECOMMENDATIONS	***To note the reduction in Section 31 Grant from DCLG for the period 2015/16 onwards.***
EXECUTIVE SUMMARY	The Cabinet Office has changed the planning assumptions for simultaneous terrorist events occurring within England. As a consequence, the grant is being reduced by 11.2% which for DSFRS represents a reduction of £103,000. The Chief Fire Officers' Association National Resilience Group has been considering the impact of this decision together with options for all USAR capabilities across the country. In recognising the change in funding the Service is confident we can absorb the change and will be considering alternative crewing options whilst continuing to maintain the capability on the same level of readiness as is the case today.
RESOURCE IMPLICATIONS	The grant reduction impacts on Wholetime establishment attached to Station 60 (USAR).
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	There are no Equality Impact Assessment issues associated with this report
APPENDICES	A. Letter from Neil O Connor dated 24 November 2014
LIST OF BACKGROUND PAPERS	Report DSFRA/10/8 "Transfer of New Dimensions Assets" to Fire Authority meeting held on 25 March 2010.

1. **INTRODUCTION**

1.1 Devon and Somerset Fire and Rescue Service (DSFRS) has the largest compliment of National Resilience assets outside of London, designed to respond to mass decontamination (IRU), major flooding (HVP) and Urban Search & Rescue (USAR) and Enhanced Logistical Support (ELS). The decision to be part of the Country's National Resilience was taken some years ago and as a consequence, the Service has developed in-house capabilities that support this. The Service now benefits from an extremely robust assurance process, cost free central training, and cost free maintenance of all vehicles along with asset refresh.

1.2 DSFRS National Resilience (NR) is funded entirely from the Department for Communities and Local Government (DCLG) revenue grant. This grant is received monthly and is apportioned across the 4 NR capabilities, USAR, IRU, ELS and HVP. DCLG has an expectation that all capabilities serviced by the grant are fit for purpose and can be mobilised anywhere in England 24 hrs a day with competent staff.

1.3 The Authority first considered a report of the Director of Service Support at its meeting on the 25 March 2010 (DSFRA/10/8) on the proposed transfer of New Dimensions assets from the DCLG to this Authority with effect from 1 April 2010. Whilst it was agreed that the Authority accept the transfer of these assets, it was only on the proviso that the Authority reserve the right to review its ongoing ownership of such assets in the event that the CLG cease or reduce the associated central government funding.

1.4 The Cabinet Office has undertaken a review of its planning assumptions, and the letter attached as Appendix A to this report sets out the decision made to instigate a reduction in the USAR grant funding based on the assumption of a reduction in the level of national risk by one-third.

1.5 The Chief Fire Officers' Association (CFOA) and DCLG looked at options to change current arrangements and finalised discussions around 2 preferred options:

- Option 1: reduce the capability by reducing team numbers across the country.
- Option 2: top slice each USAR team Grant by £102.5K (11.2% Financial reduction) to £815,630, this being the agreed option.

1.6 As a consequence Option 2 was agreed - top slicing fire and rescue service USAR budgets. For DSFRS, this will require a change to the National Crewing Model using our assets more effectively.

1.7 At present, DSFRS NR receives an annual revenue grant from DCLG for £1.1m this budget is separated as below:

- USAR £918,190 (includes consumable etc. reducing to £815,630 in 2015-16);
- IRU £120,000
- ELS £73,000
- HVP £20,000

1.8 The grant reduction will commence from April 2015. DSFRS will not be required to underwrite any National Resilience grant reductions.

1.9 The Service may need to consider alternative options for crewing in the future in the light of the grant reduction but it is felt that the current staffing levels can be maintained within existing budgetary provision.

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Director of Operations

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Efficiencies in Section 31 grant payments for all USAR-hosting fire and rescue authorities in England

I am writing to you and all other Chief Fire Officers of USAR (Urban Search and Rescue) hosting fire and rescue authorities in England to inform you of the outcome of a joint Government/Chief Fire Officers' Association review of Urban Search and Rescue (USAR) capabilities in England and the impact this will have on grant funding for these capabilities from 2015-16 onwards.

The aim of the USAR review was to examine current operational procedures to determine where there was the potential for efficiencies; and to take account of a one-third reduction in the level of risks to be planned for, as set out in the revised Cabinet Office Planning Assumptions.
We have worked closely with the Chief Fire Officers' Association, and National Resilience fire service leads to consider options, including removing a number of USAR teams, or securing savings in other ways. Having consulted each of you, the Chief Fire Officers' Association have recommended keeping all teams in place to leave each hosting authority with flexibility over the capability, given its usefulness for and integration in local response, and delivering savings via a proportionate reduction in the section 31 grant payment made to all USAR authorities. We propose therefore to reduce the annual USAR grant to each of the 19 USAR teams in England by £102.56k to £815.63k. You will note that this represents only a 11.2% financial reduction against a 33.3% risk level reduction. The annual grant for the West Sussex Strategic Reserve would reduce by £51.28k to £411.15k.1 This approach was discussed at the last meeting of the Fire and Rescue Strategic Resilience Board and the Fire Minister, Penny Mordaunt MP, has since endorsed it.

1 The precise figure £102.564k relates to the grant for a fully staffed USAR team; the figure for the Strategic Reserve is £51.282k.

This will deliver an annual saving of approximately £2 million across the capability and will apply from 2015-16 onwards. I am very grateful for your and CFOA's collaboration on this and hope you will be satisfied with the outcome.

Yours sincerely,

NEIL O'CONNOR

Director
Fire, Resilience & Emergencies