DEVON & SOMERSET FIRE & RESCUE AUTHORITY

M. Pearson
CLERK TO THE AUTHORITY

To: **The Chair and Members of the Resources Committee**

(see below)

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Our ref : DSFRA/MP/SY
Website : www.dsfire.gov.uk

Date : 2 February 2016
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RESOURCES COMMITTEE
(Devon & Somerset Fire & Rescue Authority)

Wednesday, 10th February, 2016

A meeting of the Resources Committee is to be held on the above date, **commencing at 10.00 am in the Committee Room B in Somerset House, Service Headquarters, Exeter** 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 previous meeting** **(Pages 1 - 4)**

3 **Items Requiring Urgent Attention**

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

4 **Treasury Management Performance 2015/16: Quarter 3** **(Pages 5 - 16)**

Report of the Treasurer (RC/16/1) attached.

5 **Capital Programme 2016/17 to 2018/19** **(Pages 17 - 28)**

Report of the Chief Fire Officer and Treasurer (RC/16/2) attached.

6 **Revenue Budget and Council Tax Level 2016/17 (Pages 29 - 76)**

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

7 **Financial Performance Report 2015/16: Quarter 3 (Pages 77 - 88)**

Report of the Treasurer (RC/16/4) attached.

8 **May 2016 meeting - proposed change in date (Pages 89 - 90)**

Report of the Clerk to the Authority (RC/16/5) attached.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Burridge-Clayton, C Chugg, J Dyke (Chair), B Greenslade, C Singh, D Thomas and D Yeomans (Vice-Chair)

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.

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RESOURCES COMMITTEE
(Devon and Somerset Fire and Rescue Authority)

19 November 2015

Present:-

Councillors Dyke (Chair), Bown (vice Burridge-Clayton), Eastman (vice Chugg), Greenslade, Singh, Thomas and Yeomans

Apologies:-

Councillors Burridge-Clayton and Chugg

***RC/7. Minutes**

RESOLVED that the Minutes of the meeting held on 2 September 2015 be signed as a correct record.

***RC/8. Treasury Management Performance 2015-2016: Quarter 2**

The Committee received for information a report of the Treasurer (RC/15/10) that set out the treasury management activities of the Authority for the second quarter of the current financial year (2015-16) to September 2015. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management advocated that public authorities should receive a report on treasury management activities at least twice a year and preferably quarterly. This report therefore gave the Authority the assurance required that it was fully compliant with the Code of Practice.

Adam Burleton, representing Capita – the Authority's Treasury Management Adviser – was present at the meeting and he gave an overview of the economic background against which the Service was operating together with an overview of performance to date as measured against the approved Treasury Management Strategy. The key points made were:

- The United Kingdom (UK) Gross Domestic Product (GDP) growth rates in 2013 and 2014 of 2.2% and 2.9% respectively were the strongest of any G7 country, with the 2015 UK growth rate predicted to be a leading rate in the G7 again and possibly equal to that of the US. The inflation report was subdued, however, with the rate not forecast to reach the 2% target within the 2-3 year horizon set, thus impacting on the ability of the central banks of both the UK and US to raise interest rates as soon as had been expected. A revised interest rate forecast was set out in paragraph 2.10 of report RC/15/10 for information;
- performance during the second quarter of the current financial year demonstrated a prudent approach to investment decisions, with priority being given to security and liquidity over yield in accordance with the Authority's investment priorities;
- the Service was outperforming the LIBID 3 benchmark return of 0.43% with a performance of 0.56% giving a return of £49,949 for the average level of investment fund of £34.399m in this quarter;

- no Prudential Indicators had been breached;
- the level of external borrowing was £25.8million which had reduced from £25.9m due to scheduled repayments.

The question was raised as to whether consideration had been given to an alternative investment strategy for the Authority given that the current rate of return was low and was not expected to rise significantly in the next 5 to 10 years. Reference was made in particular to peer to peer lending which was being trialled in other local authorities and which could give a potential return on investment of up to 7%. This involved spreading the risk by investing small amounts of money with large numbers of loans. Reference was also made to the potential returns from investment in Property Funds.

Adam Burleton responded that there were options available for the Service. Peer to peer lending involved unsecured loans, however, which would mean that the Authority would need to review its existing Treasury Management Strategy of pursuing security and liquidity over yield if it wished to pursue this route. He added that there would be associated costs and that the Authority needed to be fully aware of the facts before it entered into such an arrangement. The Treasurer added that the Authority had pursued a prudent investment strategy since the global financial crisis in 2008 which resulted in some banks e.g. Icelandic Banks defaulting, with an emphasis on security over yield, but acknowledged that the Authority is always looking to learn from others and consider all income streams given the current economic climate.

Councillor Thomas **MOVED** (and was seconded by Councillor Yeomans):

> "that a report be submitted to the next meeting of the Resources Committee to explore alternative options for the Authority's investment strategy".

Upon a vote, the motion was **CARRIED** unanimously, whereupon it was:

RESOLVED

(a) That a report be submitted to the next meeting of the Resources Committee to explore alternative options for the Authority's investment strategy, and;

(b) Subject to (a) above, that the performance in relation to the treasury management activities of the Authority for 2015-2016 (to September) be noted.

RC/9. <u>Financial Performance Report 2015-2016: Quarter 2</u>

The Committee considered a report of the Treasurer to the Authority (RC/15/11) on financial performance for the second quarter (April to September) as against those agreed targets for the current (2015-16) financial year.

At this stage, it was anticipated that revenue spending would be £7.163m which was some ££0.547m (0.73%) less than the approved Revenue Budget for 2015-16, although this figure was net of a proposed budget virement of £1.5m which was to be moved to an earmarked reserve to fund the Authority's capital investments as referred to in paragraph 9.3 of report RC/15/11. This approach aligned to the approved strategy to deliver in-year savings wherever possible to enhance reserve balances. The underspend to date was attributable largely to savings on staffing costs arising primarily from continued implementation of Corporate Plan proposals approved in July 2013.

The Treasurer reported that, in line with the Service's strategy to reduce future debt exposure and the resulting impact on debt charges, it was recommended that a sum of £1.5m be transferred to an Earmarked reserve to support future capital expenditure. The budget virements to support tis transfer were outlined in paragraph 9.3 of report RC/15/11 as circulated.

In terms of the Capital Programme and Prudential Indicators, the Treasurer advised that whilst it was recognised that the Service borrowing, currently at £25.880m was in excess of the need to borrow, as indicated by the Prudential Indicators, this will be aligned by the year-end and therefore none of the Indicators would be breached. The revised projection for capital spending in 2015-16 was £7.933m against a Programme of £8.178m.

Reference was made to the other financial indicators within the report circulated and in particular, the debts outstanding for more than 85 days. It was noted that the Risk and Insurance section pursued these outstanding debts on behalf of the Service, and that the Service Policy in relation to debt recovery protected the Service from unacceptable levels of debt write-off.

RESOLVED

(a) That the Authority be recommended to transfer a sum of £1.5m to Earmarked Reserves for future funding of Capital Expenditure;

(b) That, subject to (a) above, the monitoring position in relation to projected spending against the 2015-2016 revenue and capital budgets be noted;

(c) That the performance against the 2015-2016 financial targets be noted.

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

The meeting started at 09.30hours and finished at 10.47hours

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REPORT REFERENCE NO.	**RC/16/1**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2016**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2015-2016 – QUARTER 3**
LEAD OFFICER	**TREASURER**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2015-2016 (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 2015.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/15/3 – as approved at the meeting of the DSFRA meeting held on the 20 February 2015.

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 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 UK Growth Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before falling back to +0.4% (+2.1% y/y) in quarter 3.

2.2 Growth is expected to improve to about +0.6% in quarter 4 but the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the European Union (EU), China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the November autumn statement.

2.3 Despite these headwinds, the Bank of England November Inflation Report included a forecast for growth over the three years of 2015, 2016 and 2017 to be around 2.7%, 2.5% and 2.6% respectively, although statistics since then would indicate that an actual outturn for 2015 is more likely to be around 2.2%. Nevertheless, this is still moderately strong growth which is being driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that Consumer Prices Index (CPI) inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth.

2.4 The November Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon re-join the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

2.5 There are, therefore, considerable risks around whether inflation will rise in the near future as strongly as previously expected; this will make it more difficult for the Bank of England to make a start on raising Bank Rate as soon as had been expected in early 2015, especially given the subsequent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets during 2015, which could potentially spill over to impact the real economies rather than just financial markets.

2.6 The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015 before easing back to +2.0% in quarter 3. While there had been confident expectations during the summer that the Federal Reserve could start increasing rates at its meeting on 17 September, downbeat news during the summer about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Federal Reserve's decision to pull back from making that start. The nonfarm payrolls figures for September and revised August, issued on 2 October, were also disappointingly weak. However, since then concerns on both the domestic and international scene have abated and so the Federal Reserve made its long anticipated start in raising rates at its December meeting.

2.7 In the Eurozone, the European Commission Bank (ECB) fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it was intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%.

2.8 This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its quantitative easing programme if it is to succeed in significantly improving growth in the European zone and getting inflation up from the current level of around zero to its target of 2%.

Interest Rate Forecasts

2.9 The Council’s treasury advisor, Capita Asset Services, has provided the following forecast:

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
5yr PWLB rate	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB rate	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB rate	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%

2.10 Capita Asset Services undertook a review of its interest rate forecasts on 9 November after the August Bank of England Inflation Report. This latest forecast includes no change in the timing of the first increase in Bank Rate as being quarter 2 of 2016. With CPI inflation now likely to be at or near zero for most of 2015 and into early 2016, it is currently very difficult for the Monetary Policy Committee (MPC) to make a start on increasing Bank Rate. In addition, the Inflation Report forecast was also notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon.

2.11 Despite average weekly earnings excluding bonuses hitting 2.5% in quarter 3, this has subsided to 1.9% and is unlikely to provide ammunition for the MPC to take action to raise Bank Rate soon as labour productivity growth would mean that net labour unit costs are still only rising by less than 1% y/y. The significant appreciation of Sterling against the Euro in 2015 has also acted to dampen UK growth while volatility in financial markets since the Inflation Report has resulted in volatility in equity and bond prices and bond yields (and therefore Public Works Loan Board rates). But CPI inflation will start sharply increasing around mid-year 2016, once initial falls in fuel and commodity prices fall out of the 12 month calculation of inflation; this will cause the MPC to take a much keener interest in the forecasts for inflation over their 2-3 year time horizon from about mid-year.

2.12 The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only just starting a significant recovery as a result of recent increases in the rate of wage inflation, though some consumers will not have seen that benefit come through for them.

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 20th February 2015. 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 2015 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.

3.5 The average level of funds available for investment purposes during the quarter was £30.437m (£34.399m 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	0.45%	0.49%	£90,719

3.6 As illustrated, the authority outperformed the 3 month LIBID benchmark by 0.04bp. It is also forecast that the Authority's budgeted investment target for 2015-2016 of £0.116m will be overachieved.

Opportunities for Higher Investment Returns

3.7 At the meeting held on the 19 November 2015, the Committee requested consideration was given to the diversification of the investment portfolio into higher risk/higher yield instruments, and specifically, to consider investments into Property Funds and Peer-to-Peer Lending.

3.8 Whilst the current Investment Strategy ensures that priority is given to security over yield and it is accepted that this results in investment returns being relatively low, the Authority should be open to new investment opportunities with potentially higher returns. Consideration should be given to the point that any amendment to the Treasury Management Strategy needs to be balanced with the potential change in risk appetite and the possibility of capital losses.

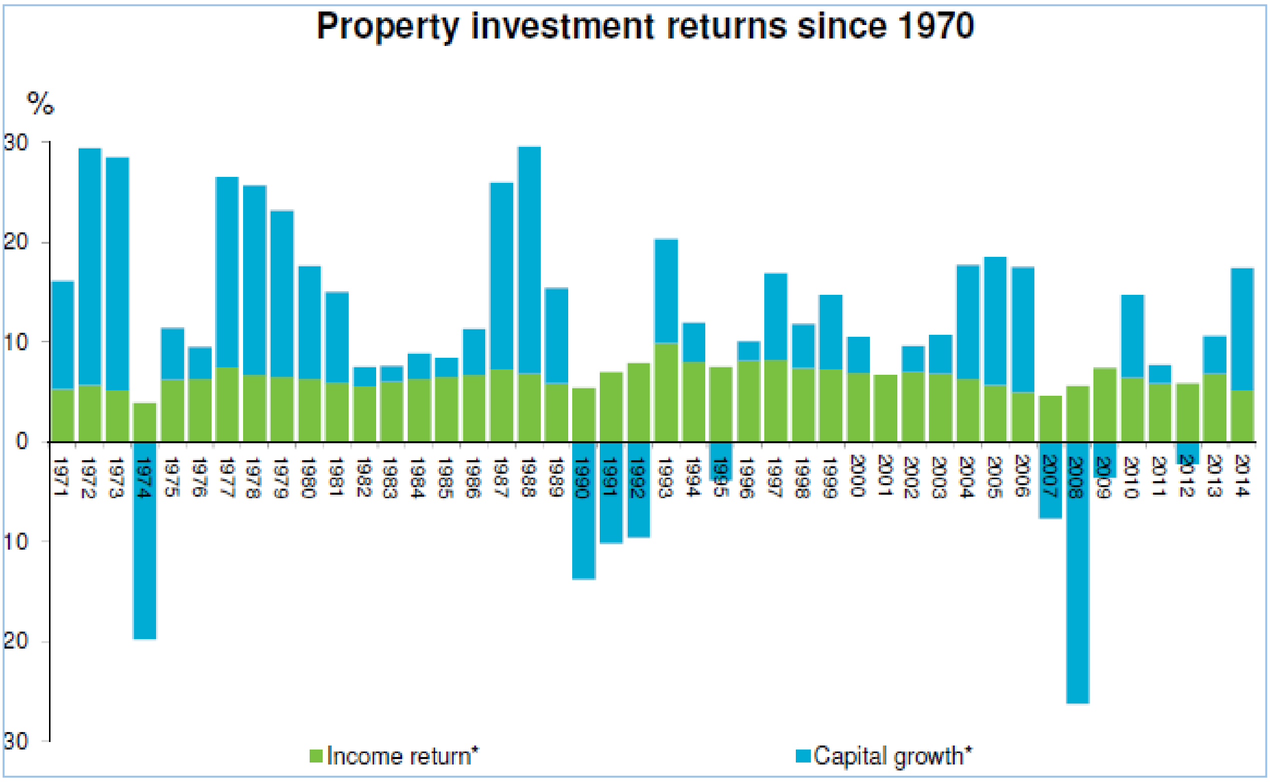
3.9 In response to the request made at the previous meeting, this report sets out below further information in relation to two potential new investment instruments, i.e., Property Funds and Peer-to-Peer lending, including an assessment of the risks associated with each instrument.

Local Authority Property Funds (LAPF)

3.10 Property funds invest in commercial properties and provide returns from income, through rental streams, and from capital growth. The Local Authority Property Funds is managed by CCLA Ltd and is a particular fund operated solely for Local Authority membership which stands at 123 (including parishes) and a total fund size of approximately £300m.

3.11 Income yields tend to be generally consistent between 5% and 10% year on year due to the quality of contracted lease tenants, whilst capital growth tends to deliver higher yields but can be volatile. Performance for 2014 shows a gross return of 16.74%, Chart 1 reports gross returns since 1971.

Chart 1



3.12 Clearly the level of returns in recent years has been significantly higher than the Authority's performance, however, the performance figures also highlight the risk of capital losses e.g. -28.59% in 2008.

3.13 On the negative side, fees and charges associated with the Fund tend to be expensive with an entry fee in the region of 7% and an exit fee of around 1% of the amount invested. CCLA Ltd will also charge an annual management fee of 0.65%.

3.14 It is also important to recognise that this is a long term investment and cannot be classified as a liquid asset. This means that this is only suitable for core cash and recommended for investments of a minimum of 5 years to cover fees and charges and any potential capital loss.

3.15 A summary of risks/benefits is shown in the table below:

Benefits	Risks	Mitigation of Risk
Potential for significant returns.	Potential for capital losses	Long term investment – minimum of 5 years
	High fees and charges	Long term investment – minimum of 5 years
	Not a liquid asset (assets only available once specific property sold).	Amount of Core Cash to be informed from Cash Flow forecasts.

Peer-to-Peer Lending

3.16 Peer-to-peer lending websites work by enabling savers/investors to lend directly to borrowers. Banks are cut out and without their margins participants can get slightly better rate deals than through traditional loan methods.

3.17 As part of the Business Finance Partnership scheme the government has committed £60million of funding to British businesses through the Funding Circle website. Over a dozen Local Authorities are lending through the Funding Circle, predominantly to local businesses. The Funding Circle has to date facilitated over £1bn of loans with over 46,000 live lenders.

3.18 Borrowers are checked and assessed by the website and categorised as to risk (A+ to E). Lenders set their own risk and rate appetite and can select appropriate loans themselves (bespoke lending) or delegate the task to an automated process. This process spreads an investment over a number of loans, the lender taking a share (loan "part") in the overall loan total. It is recommended that an investment is diversified over at least 100 different loan parts to spread the risk of any capital loss through bad loans. It may take some time to lend out a full investment amount and any unlent cash will not attract interest.

3.19 It is accepted that there will be an element of bad debts (ranging from 0.6% for risk category A to 8.0% for category E), however, experience to date has evidenced that this is more than offset by higher returns. The Funding Circle will levy a servicing fee of 1% of outstanding principal deducted from loan repayments.

3.20 The Funding Circle website advertises an expected return of 7.2% after fees and bad debts.

3.21 A summary of risks/benefits is shown in the table below:

Benefits	**Risks**	**Mitigation of Risk**
Potential for returns higher than current Authority performance.	Potential for capital losses	Authority can set its own risk appetite and select its own loans. Recommended to spread investment over at least 100 different loan parts to spread the risk.
Liquidity can be achieved through selling of loan parts.	Fees of 1% on outstanding principal.	Experience suggests that fees and charges are offset by higher returns.
	May take some time to lend out full investment and no interest on unlent cash.	Experience suggests that this can be offset by higher overall returns.
	Suitable for medium to long term investments only.	Amount of Core Cash to be informed from Cash Flow forecasts.

BORROWING STRATEGY

Prudential Indicators:

3.22 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.

3.23 A full list of the approved limits (as amended) are included in the Financial Performance Report 2015-2016, 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

3.24 External borrowing as at 31 December 2015 was £25.817m (£25.880m in previous quarter). All of this debt was at fixed rate with the remaining principal having an average rate/life of 4.231%/30.09 years.

Loan Rescheduling

3.25 No debt rescheduling was undertaken during the quarter. The Authority has carried out some options appraisal work to determine if it there are opportunities to repay existing loans but the current Public Works Loan Board early repayment rates mean there is no benefit in undertaking premature loan repayment. It will be kept under review and further updates will be provided in the quarterly Treasury Management reports.

Borrowing in Advance of Need

3.26 The external borrowing position at the end of the previous financial year of £25.943m exceeded the Capital Financing Requirement of £22.582m, which reflects that borrowing of £3.361m had been taken out in advance of spending. This was as a result of slippage against the 2013-14 and 2014-15 capital programme being more than forecast. As reported to the Authority at its meeting in May 2015, in considering the final Treasury Management Performance Report for 2014-15, this does not represent a breach of prudential indicators, as borrowing is permitted to be above current Capital Financing Requirement as long as future Capital Financing Requirement estimates for current and next two financial years will utilise these loans.

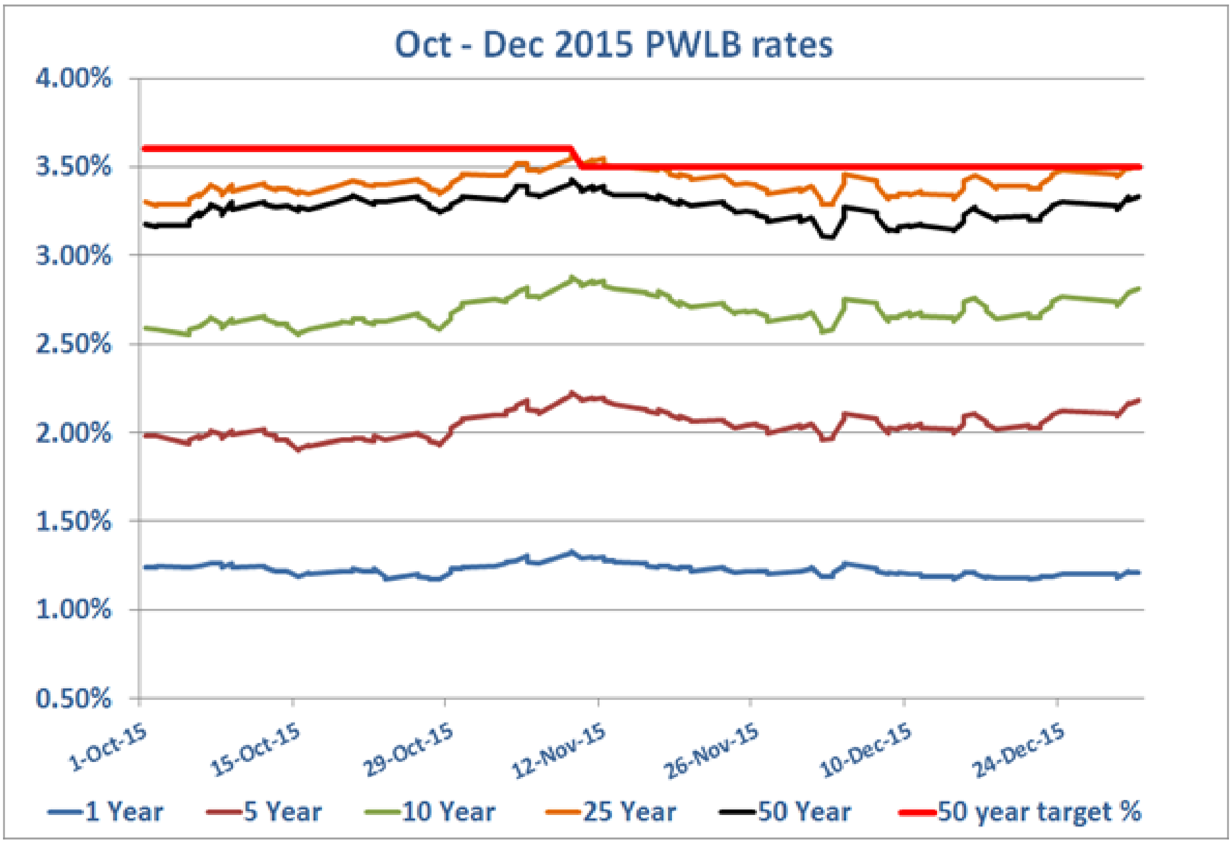
3.27 For the current financial year it is forecast that by 31 March 2016 external borrowing will be £25.817m, which will match the Capital Financing Requirement figure as at the same date. This will mean that there will be no over-borrowing position by the end of the current financial year. .

New Borrowing

3.28 As outlined below, the general trend in Public Works Loan Board rates has been an increase in interest rates during the first quarter followed by a fall during the second quarter: in the third quarter rates have been volatile with no overall direction. The 50 year Public Works Loan Board target (certainty) rate for new long term borrowing, for the quarter ending 31st December, fell slightly during the quarter from 3.60% to 3.50% after the November Bank of England Inflation report.

3.29 No new borrowing was undertaken during the quarter and none is planned during 2015-16. It is anticipated that use of internal borrowing will avoid the need to borrow from the Public Works Loan Board in year; however this will be subject to certainty rates on offer and the delivery of the capital programme.

3.30 Borrowing rates for this quarter are shown below.



3.31 Public Works Loan Board certainty rates for the quarter ended 31 December 2015 are shown below. Devon and Somerset Fire and Rescue Authority is eligible to borrow at certainty rates.

Public Works Loan Board rates quarter ended 31 December 2015

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.90%	2.55%	3.28%	3.10%
Date	23/10/2015	15/10/2015	05/10/2015	02/10/2015	03/12/2015
High	1.33%	2.23%	2.88%	3.57%	3.43%
Date	09/11/2015	09/11/2015	09/11/2015	09/11/2015	09/11/2015
Average	1.23%	2.05%	2.69%	3.41%	3.27%

4. SUMMARY

4.1 In compliance with the requirements of the Chartered Institute of Public Financial Accountants (CIPFA) Code of Practice of Treasury Management, this report provides the Committee with the third quarter report of the treasury management activities for 2015-2016 to December 2015. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken so far, with priority being given to liquidity and security over yield. Whilst investment returns are still low as a consequence of the fall in interest rates, the Authority is anticipating that investment returns will over achieve the budgeted target.

KEVIN WOODWARD
Treasurer

	Investments as at 31 December 2015				
Counterparty	Maximum to be invested	Total amount invested	Call or Term	Period invested	Interest rate(s)
	£m	£m			
Bank of Scotland	5.000	2.100	T	1 yr	1.000%
		1.400	T	1 yr	1.000%
		1.500	T	1 yr	1.020%
Barclays	8.000	2.500	T	6 mths	0.690%
		3.300	T	6 mths	0.660%
		2.000	T	6 mths	0.700%
		0.700	C	Instant Access	0.200%
Santander	5.000	1.000	T	6 mths	0.600%
		2.000	T	3 mths	0.690%
		2.000	T	6 mths	0.690%
Coventry Building Society	2.000	2.000	T	6 mths	0.600%
Nationwide Building Society	2.000	2.000	T	6 mths	0.660%
Black Rock Money Market Fund	5.000	1.773	C	Instant Access	Variable
Ignis Sterling Liquidity Money Market Fund	5.000	2.837	C	Instant Access	Variable
Total invested as at 31 December 2015		£27.110M			

REPORT REFERENCE NO.	**RC/16/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2016**
SUBJECT OF REPORT	**CAPITAL PROGRAMME 2016-17 TO 2018-19**
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 £2.407m from the 2016-17 revenue budget towards financing of the 2016-17 to 2018-19 capital programme;*** ***(ii) to approve the draft Capital Programme 2016-17 to 2018-19 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 2019-20 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 2016-17 to 2018-19 and also outlines the difficulties in meeting the full capital expenditure requirement for this Authority, given the number of fire stations, fire appliances and associated equipment required to be maintained and eventually replaced. All aspects of the capital requirement have been considered and the programme has been constructed based on the principle that debt charges emanating from external borrowing are kept within the 5% Prudential Indicator limit (debt charges as a percentage of the Revenue Budget) set by the Authority. 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 Treasurer’s recommendation that the Authority should seek alternative sources of funding other than external borrowing to support future capital investment. Elsewhere on the agenda for this meeting is a separate report “2016-17 Revenue Budget and Council Tax Levels” which makes provision for a revenue contribution towards capital of £2.407m; potentially rising to £3.268m should the Authority be minded to approve Option B within that report (1.99% increase in Council Tax). To inform longer term planning the Prudential Indicator has been profiled for a further three years beyond 2018-19 based upon indicative capital programme levels for the years 2019-20 to 2021-22

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 2016-17 to 2018-19 (and indicative Capital Programme 2019-20 to 2021-22). B. Prudential Indicators 2016-17 to 2018-19 (and indicative Prudential Indicators 2019-20 to 2021-22).
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 that a reducing revenue base has on the Authority's ability to borrow whilst maintaining debt charge below the 5% ceiling, has made the allocation of funds between the main capital cost centres of fleet and estates increasingly difficult.

1.2 As part of the provisional settlement announcement on 17th December 2015, it was confirmed that there will be no grant for Capital funding available to fire authorities in the four years to 2019-20.

1.4 Up until 2013-14, Devon and Somerset Fire and Rescue Authority (the Authority) 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. 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 (from £2.0m in 2011-12) and to support the need to keep external borrowing within affordable limits, it is proposed that a revenue contribution be made from the 2016-17 revenue budget to support capital spending.

1.6 The Authority has set a strategy to reduce reliance on external borrowing and therefore the proposed Capital Programme 2016-17 to 2018-19 and indicative Capital Programme 2019-20 to 2021-22 have been produced on the basis that no new borrowing will occur in the 6 year period.

1.7 In order to support this strategy, it is recommended that the Committee considers the approval of a minimum revenue contribution to Capital of £2.407m in 2016-17 and that a minimum of £2m is included as a direct revenue contribution to Capital in the base budget for future years.

2. **FINANCING OF THE PROPOSED CAPITAL PROGRAMME**

2.1 In 2008, a report “Affordable Capital Investment Plans for 2009-2010 to 2011-12” was considered by the Resources Committee on 8 December 2008. This report was regarding the instigation of a principle that debt charges 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 2019-20.

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 Authority on 20 February 2015 (Minute DSFRA/44(b) refers) when setting the existing capital programme.

2.4 The proposed programme and funding, as contained in this report, decreases the external borrowing requirement to £25.5m by 2018-19, and ensures that the debt ratio is maintained below 5% (forecast to be 4.10%). This compares to a current external borrowing of £25.8m as at 31 March 2016. Looking further ahead the external borrowing requirement is forecast to reduce to £24.8m by 2021-22.

2.5 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 and has utilised revenue funding wherever possible through allocation of budget or revenue underspends. This approach has been successful because neither the 5% prudential indicator has been breached nor has external borrowing increased.

2.6 With increasing pressure on revenue budgets, the revised programme has been prepared on the basis that a strategy of long term affordability will be followed, with the indicative programme showing that no new external borrowing will be required over the 6 year period to 2021-22.

2.7 Due to current interest rates it is not economically viable for the Authority to repay loans early. This means that whilst no new borrowing will be required, existing loans will be applied to the current capital programme until repayment is made in order to avoid an over-borrowed situation. The debt portfolio and interest rates will be regularly reviewed with a view to early repayment if this option becomes more affordable.

2.8 Elsewhere on the agenda for this meeting is a separate report "2016-17 Revenue Budget and Council Tax Levels" which makes provision for a revenue contribution towards capital of £2.407m; potentially rising to £3.268m should the Authority be minded to approve Option B in the recommendations within that report (1.99% increase in Council Tax).

2.9 It is proposed that the Capital reserve is used to smooth funding requirements for the Capital programme and therefore, because only £3.048m revenue contribution to capital is required in 2016-17 to meet the programme, the difference of £0.220m from the 1.99% increase in Council Tax will be budgeted as a transfer to the Capital Reserve.

2.10 It should also be noted that in order that the programme can be achieved without the need to increase borrowing then a revenue contribution to Capital will be required to be built into revenue base budget beyond 2016/17. The programme has been constructed to include a £2m base contribution from 2017-18. This figure will need to reviewed annually as part of the budget setting process.

3. **ESTATES**

3.1 After a period of significant investment, the Estates programme was reduced from 2013/14 to accommodate other capital programmes. Now, with the twin challenges of the removal of the capital grant and a property portfolio that continues to mature, it has been identified that an alternative strategy to providing a fit for purpose Estate is required.

3.2 An Estates Development review was therefore commissioned and is presently in its early stages to identify any 'latent' value or development opportunities that can be released from our existing portfolio either through disposal of a site, development of a site or moving a site to a new location. Early indications are that some opportunities may exist although it is presently anticipated that the total capital receipts that may be generated would be required to release the opportunity. However, it is anticipated that the outcome of any development would result in new or improved assets that meet modern standards, are far more efficient in their layout and operation and are consequently lower in cost to maintain.

3.3 Whilst the outcome of that review is awaited, a reduced programme of expenditure has been implemented on sites that may be within the scope of possible opportunities for development. As such some sites are planned to receive only minor works whilst their future is determined and this is reflected in the programme with no major projects planned to commence in 2016/17.

3.4 However, feasibility studies will be undertaken where required on sites identified as having development potential (possibly with other Blue Light partners) or where there is a new requirement such as at the new towns of both Cranbrook and Sherford.

3.5 It should be noted that the increasing co-operation between Bluelight partners in the region may also generate other co-location or development opportunities and it is anticipated that 2016/17 will be the period where much of the feasibility planning on these will be undertaken with subsequent years seeing a return of significant capital demands.

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 in 2014/15 providing the necessary funding for the investment in the Light Rescue Pump programme, which will be largely completed in 2016/17.

4.2 During the course of this year (2015/16) the Service commenced pilots to evaluate 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. These pilots were based around the principle of matching 'resources to risk' and included assessment of the Rapid Intervention Vehicle concept, which is integral to the future fleet arrangements within Tier 1. Subject to the outcome of the pilots, it is proposed to commence procurement of the preferred solution in 2016/17 with a view to introducing this vehicle in 2017/18, thereby reducing the future fleet costs further.
4.3

4.4 The Light Rescue Pump programme, together with the Rapid Intervention Vehicle programme, remains the bedrock of the Authority's future fleet replacement strategy for introducing 'Tiered Response'; meeting future service delivery arrangements with more cost effective vehicles, improved service to local communities, along firefighter safety. The capital programme has been adjusted to support delivery of thess programmes.

Breathing Apparatus Replacement Programme

4.5 The harmonisation of breathing apparatus equipment between Somerset (was Scott Sabre) and Devon (InterSpiro) has now been completed and the InterSpiro sets are now used across the Service.

4.6 A Respiratory Protection strategy is now being developed that will consider all aspects of respiratory protection for operational staff. This will also consider the use of telemetry. Previously, it was estimated that an amount of £1.4m would be required for the Breathing Apparatus harmonisation/replacement but this figure has been revised to £0.884m in the light of the latest information on indicative costs.

5. **REVISED CAPITAL PROGRAMME FOR 2016-17 to 2018-19**

5.1 Appendix A provides an analysis of the proposed programme for the three years 2016-17 to 2018-19 as contained in this report. This programme represents a net decrease in overall spending of £2.5m over the previously agreed programme as illustrated in Figure 1 overleaf

	Estates £m	Fleet & Equipment £m	Total £m
EXISTING PROGRAMME			
2015-16	2.1	6.1	8.2
2016-17	2.9	4.5	7.4
2017-18 (provisional)	2.0	3.3	5.3
2018-19 (provisional)	1.8	1.8	3.6
Total 2015-16 to 2018-19	8.8	15.7	24.5
PROPOSED PROGRAMME			
2015-16 (forecast spending)	1.4	6.0	7.5
2016-17	1.8	3.3	5.1
2017-18 (provisional)	2.4	2.6	5.0
2018-19 (provisional)	1.5	3.0	4.5
Total 2015-16 to 2018-19	7.1	14.9	22.0
PROPOSED CHANGE	**(1.7)**	**(0.8)**	**(2.5)**

Figure 1

5.2 The decrease of £1.7m spending for estates relates to the current strategic review of the estate requirement and therefore the postponement of any major projects until completed. If major projects are identified through this process, the Authority will be asked to consider an amendment to the Capital Programme at that point

5.3 The fleet and equipment replacement programme has decreased by £0.8m as a result of the strategy to match resources to risk and the resultant use of lighter vehicles throughout Devon & Somerset, pending the outcome of the pilot for Rapid Intervention Vehicles.

5.4 Appendix A also provides indicative capital requirements beyond 2018-19 to 2021-22. 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 £2.407m from the 2016-17 revenue budget, on the basis that the proposal is agreed, are reflected in the draft 2016-17 revenue budget and Medium Term Financial Plan (MTFP) forecasts.

Summary of Estimated Capital Financing Costs

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Base budget for Capital Financing costs Debt charges and operating leasing rentals	3.974	3.721	3.646	3.582	3.614	3.609
Change over previous year		-0.252	-0.075	-0.064	0.032	-0.006
Debt ratio	4.19%	4.19%	4.10%	4.10%	4.09%	4.06%

Figure 2

5.5 The forecast figures for external debt and debt charges beyond 2018-19 are based upon the indicative programmes as included in Appendix A for the years 2019-20 to 2021-22. 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 reduced from current levels of £25.8m to £24.8m (including impact of proposed revenue contributions) by 2021. Figure 3 below provides further analysis of forecast borrowing for each year and a comparison borrowing requirement if the strategy to implement revenue contributions is not implemented.

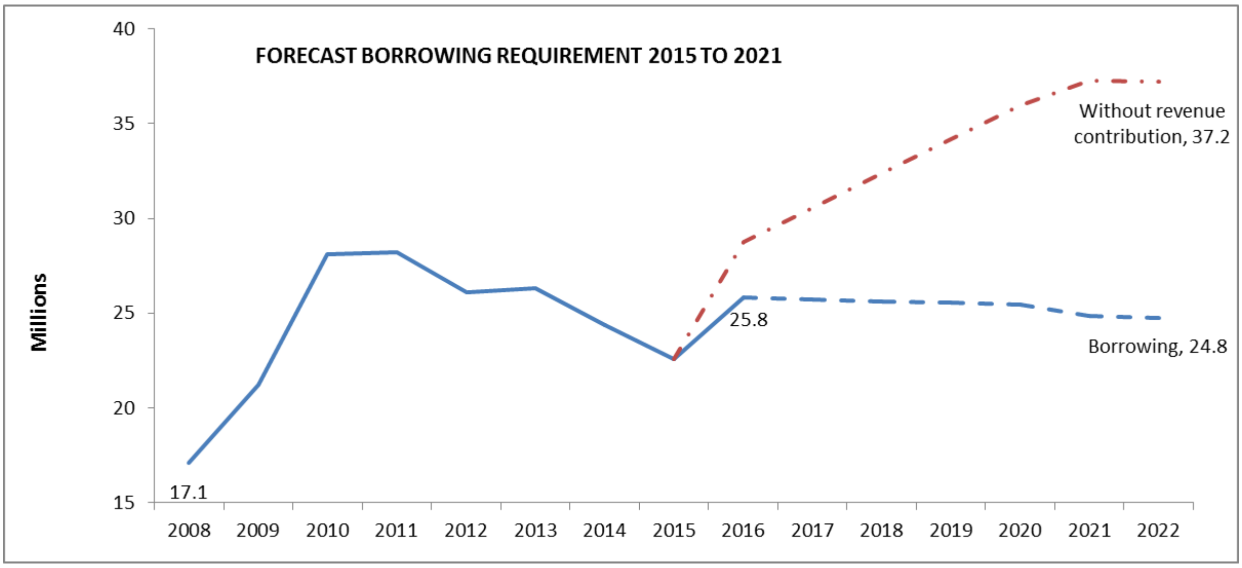


Figure 3

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 2021-22, this will only be possible with regular revenue contributions to the capital programme (both from base budget and in year underspends) to maintain an affordable and sustainable Capital Programme.

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.

7.2 Given the government decision to withdraw any direct grant funding from 2016-17 (£2.0m for this Authority in 2011-12) the capital programme has been constructed on the basis that the revenue budget includes a base contribution to capital which if approved will avoid the need for any new borrowing over the next 6 years. However, the programme proposed in this report does not commit any spending beyond 2018-19. Decisions on further spending will be subject to annual review based upon the financial position of the Authority. The Capital Programme 2016/17 to 2018/19 is therefore recommended to the Devon and Somerset Fire and Rescue Authority for approval.

LEE HOWELL	**KEVIN WOODWARD**
Chef Fire Officer	**Treasurer**

APPENDIX A TO REPORT RC/16/2

Capital Programme 2016/17 to 2021/22

2015/16 £000 Budget	2015/16 £000 Forecast Outturn	Item	PROJECT	2016/17 £000 Budget	2017/18 £000 Budget	2018/19 £000 Budget	2019/20 £000 Indicative Budget	2020/21 £000 Indicative Budget	2021/22 £000 Indicative Budget
			Estate Development						
421	421	1	Major Projects	0	0	0	0	0	0
1,620	1,015	2	Minor improvements & structural maintenance	1,768	2,412	1,505	1,115	785	1,750
2,041	**1,436**		**Estates Sub Total**	**1,768**	**2,412**	**1,505**	**1,115**	**785**	**1,750**
			Fleet & Equipment						
4,502	4,502	3	Appliance replacement	1,350	2,220	2,220	2,530	2,740	2,740
0	0	4	Community Fire Safety	0	0	0	0	0	0
344	219	5	Specialist Operational Vehicles	125	0	200	200	0	0
953	953	6	Equipment	1,019	351	570	210	200	200
245	251	7	ICT Department	800	0	0	0	0	0
93	93	8	Water Rescue Boats	0	0	0	0	0	0
6,137	**6,018**		**Fleet & Equipment Sub Total**	**3,294**	**2,571**	**2,990**	**2,940**	**2,940**	**2,940**
8,178	**7,454**		**Overall Capital Totals**	**5,062**	**4,983**	**4,495**	**4,055**	**3,725**	**4,690**
			Programme funding - 1.99% increase in CT						
1,047	463		Earmarked Reserves:	47	1,094	680	212	388	860
2,134	1,994		Revenue funds:	3,048	2,000	2,000	2,000	2,000	2,000
			Capital Receipts:	0	0	0	0	0	0
4,997	4,997		Application of existing borrowing	1,967	1,889	1,815	1,843	1,337	1,830
8,178	**7,454**		**Total Funding**	**5,062**	**4,983**	**4,495**	**4,055**	**3,725**	**4,690**
			Programme funding - 0% increase						
1,047	463		Earmarked Reserves:	688	1,094	680	212	388	860
2,134	1,994		Revenue funds:	2,407	2,000	2,000	2,000	2,000	2,000
			Capital Receipts:			0			
4,997	4,997		Application of existing borrowing	1,967	1,889	1,815	1,843	1,337	1,830
8,178	**7,454**			**5,062**	**4,983**	**4,495**	**4,055**	**3,725**	**4,690**

APPENDIX B TO REPORT RC/16/2

PRUDENTIAL INDICATORS

				INDICATIVE INDICATORS 2017/18 to 2020/21		
	2016/17 £m Estimate	2017/18 £m Estimate	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate
Capital Expenditure						
Non - HRA	5.062	4.983	4.495	4.055	3.725	4.690
HRA (applies only to housing authorities						
Total	5.062	4.983	4.495	4.055	3.725	4.690
Ratio of financing costs to net revenue stream						
Non - HRA	4.19%	4.19%	4.10%	4.10%	4.09%	4.06%
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	25,724	25,630	25,537	25,444	24,851	24,757
HRA (applies only to housing authorities	0	0	0	0	0	0
Other long term liabilities	1,374	1,299	1,209	1,112	1,010	907
Total	27,098	26,929	26,747	26,556	25,861	25,665
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	-162	-169	-183	-191	-695	-197
HRA (applies only to housing authorities	0	0	0	0	0	0
Total	-162	-169	-183	-191	-695	-197
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	-£0.04	-£0.26	-£1.07	N/A	N/A	N/A
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT						
Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	26,824	26,726	26,128	26,030	29,044	31,243
Other long term liabilities	1,278	1,177	1,071	963	841	701
Total	28,101	27,902	27,199	26,993	29,885	31,944
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	25,537	25,444	24,851	24,757	27,802	30,005
Other long term liabilities	1,209	1,112	1,010	907	791	656
Total	26,747	26,556	25,861	25,665	28,592	30,661

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REPORT REFERENCE NO.	**RC/16/3**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2016**
SUBJECT OF REPORT	**2016-17 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 19 February 2016, an appropriate level of revenue budget and council tax for 2016-17.***
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 2016-17 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 2016-17. OPTION A – Freeze council tax at 2015-16 level **(£78.42 for a Band D Property).** OPTION B – Increase council tax by 1.99% above 2015-16 **(increase of £1.56 to £79.98).** 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 19 February 2016.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	Not applicable.
APPENDICES	A. Core Net Revenue Budget Requirement 2016-17. B. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances. C. Letter of Representation sent to the CLG regarding the Provisional Local Government Finance Settlement. D. BMG Report on Precept Consultation for 2016-17 Revenue Budget E. Report on face to face Precept Consultation
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 2016-17. 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 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.

1.3 On the 17th December 2015 the Department for Communities and Local Government announced as part of the provisional Local Government Settlement the council tax limit to be applied in 2016-17, 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 the Service 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 2015-16 level (£78.42 for a Band D Property).
- **OPTION B** – Increase council tax by 1.99% above 2015-16 (£79.98).

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 19 February 2016.

2. **LOCAL GOVERNMENT FINANCE SETTLEMENT 2016-17**

2.1 The provisional Local Government Finance Settlement was announced on the 17th December 2015, which provided local authorities with individual settlement funding assessment figures for 2016-17 and an offer of a four-year settlement to 2019-20 for those authorities that wish to take it.

2.2 The Settlement Funding Assessment (SFA) for this Authority results in a reduction in 2016-17 of 8.6% over 2015-16 and should the Authority accept the four-year settlement a total reduction of 24.9% by 2019-20:

TABLE 1 – SETTLEMENT FUNDING ASSESSMENT			
	SFA	**SFA Reduction**	
	£m	**£m**	**%**
2015-16	29.413		
2016-17	26.873	(2.540)	**-8.6%**
2017-18	23.872	(3.001)	**-11.2%**
2018-19	22.599	(1.273)	**-5.3%**
2019-20	22.080	(0.519)	**-2.3%**
Reduction over 2015-16		**(7.333)**	**-24.9%**

2.3 With regard to the offer of a four-year settlement the government is making a clear commitment to provide central funding for the period of the Spending Review to those authorities that choose to accept the offer and have published an Efficiency Plan. Therefore, it has published indicative figures for future years which will be confirmed in the final settlement.

2.4 In practice, final figures for each year will be subject to changes in the business rates multiplier which is based on the Retail Prices Index in September each year. However, barring exceptional circumstances, e.g. transfer of new responsibilities between authorities and subject to the normal statutory consultation process for the local government finance settlement, the government expects the future year figures to be presented to Parliament each year.

2.5 At this time there is no further detail on the timetable for accepting the four-year offer.

2.6 The provisional settlement figures for the Authority are in line with the figure previously included within the Service medium term financial plans (anticipated 8% reduction in 2016-17 rising to 25% over the four year period).

2.7 When compared to other fire and rescue authorities, this Authority has received the 7th worst settlement with 24.9% reduction over the period against an average of 20%. In terms of spending power (which also includes income from Council Tax and the Rural Services Delivery Grant) the government is anticipating a reduction of 0.8% of our spending power by 2019-20, the 9th best settlement against an average of 2.0% for the sector.

2.8 In addition to the settlement figures reported in Table 1, the Authority has been awarded a share of a separate Rural Services Delivery Grant which is only available to the most sparsely populated rural areas. The government has increased this grant from £15.5m this year to £65m by 2019-20 resulting in a grant for this Authority of £104k in 2016-17 rising to £340k by 2019-20. This grant will be paid as a Section 31 grant and the 2016-17 grant of £104k is included as income within the draft budget proposed in this report.

2.9 A response to the provisional 2015-16 Local Government Finance Settlement announcement has been sent to the CLG on behalf of the Authority expressing disappointment with the provisional settlement and the lack of recognition of rural sparsity and its impact on the Authority's cost base. A copy of this letter is attached as Appendix C.

3. REQUIREMENT TO HOLD A LOCAL REFERENDUM FOR EXCESSIVE COUNCIL TAX INCREASES

3.1 Members will be aware of the new rules introduced in 2013-14 which require 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 council tax level in excess of the referendum limit 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, the Service has argued with the Department of Communities and Local Government (DCLG), 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 DCLG to consider an alternative set of principles for fire and rescue authorities that would apply a cash amount, e.g. £5, rather than applying a percentage increase. Disappointingly, whilst some police and crime commissioner areas and shire district councils have been given the flexibility to adopt the £5 threshold in 2016-17, the provisional settlement confirms that for fire and rescue authorities a percentage increase threshold will continue to be applied.

3.4 On the 17th December 2015, the Department for Communities and Local Government announced the referendum threshold to be applied in 2016-17 is to be 2.0%.

4. COUNCIL TAX AND BUDGET REQUIREMENT 2016-17

Council Tax

4.1 Unlike in the previous Spending Review period the government has not overtly laid out any expectation that local authorities should freeze council tax, and therefore there is no offer of a Council Tax Freeze Reward Grant to those authorities that freeze, or reduce, council tax in 2016-17.

4.2 It is of course still an Authority decision to set a level of council tax that is appropriate to its funding position. For 2016-17 this report considers two options A and B.

- **OPTION A** – Freeze council tax at 2015-16 level (£78.42 for a Band D Property).
- **OPTION B** – Increase council tax by 1.99% above 2015-16 (£79.98).

4.3 Members could of course decide to set any alternative level between these two options. Each 1% increase in council tax represents a £0.78p increase for a Band D property, and is equivalent to a £0.452m 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 the Authority to consider a council tax increase in excess of the 2% threshold.

4.4 Each of the options will result in a reduction in the amount of revenue funding for 2016-17. 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 figures from some billing authorities relating to the amount of estimated business rates income in 2016-17 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 2016-17

	OPTION A Council Tax Freeze at £78.42	**OPTION B** Council Tax Increase of 1.99% to £79.98
	£m	**£m**
TOTAL FUNDING 2015-16	**74.710**	**74.710**
Reduction in Formula Funding	(2.593)	(2.593)
Increase in Retained Business Rates from Business Rate Retention System.	0.053	0.053
Changes in Council Tax Precept		
- increase in Council Tax Base	0.859	0.859
- resulting from an increase in Band D Council Tax	-	0.904
- Increase in Share of Billing Authorities Council Tax Collection Funds	0.230	0.230
Net Change in precept income	**1.089**	**1.992**
TOTAL FUNDING AVAILABLE 2016-17	**73.259**	**74.163**
NET REDUCTION IN FUNDING	**(1.451)**	**(0.547)**

Council Tax Base

4.5 Whilst the reduction in government funding of £2.540m was expected and planned for, we had not expected to see such a high increase in the council tax base for the area resulting in additional precept income of £0.875m, an increase in the tax base of nearly 2%. This is largely as a result of an increase in the council tax base across the area of Devon and Somerset (£0.9m) 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 the Authority has increased by £0.230m.

Net Budget Requirement

4.6 Table 3 overleaf provides a summary of the core budget requirement *(based upon Option B for illustrative purposes)* for 2016-17. 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 2016-17

	£m	%
Approved Net Revenue Budget Requirement 2015-16	**74.710**	
PLUS Provision for pay and price increases (Pay award assumed 1.0% in 2016 for Firefighters)	0.549	*0.73%*
MINUS Removal of one off provisions in 2015-16	(0.758)	*-1.01%*
PLUS Inescapable Commitments	1.308	*1.75%*
PLUS Capital contribution	1.150	*1.54%*
PLUS Changes to income targets	0.426	*0.57%*
CORE SPENDING REQUIREMENT 2016-17	**77.384**	
INCREASE IN BUDGET OVER 2015-16 (£m)	**2.674**	***3.58%***

Invest-to-Save

4.7 Elsewhere on the agenda is a separate report relating to the proposed capital programme 2016-17 to 2018-19. 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 since 2014-15. It is therefore recommended that the Authority supports revenue contributions to fund capital spending wherever possible in order to reduce future borrowing requirement and therefore the resultant commitment required in the revenue budget to service debt charges.

4.8 It is therefore proposed that the revenue budget for 2016-17 includes an increase to the provision for a direct revenue contribution towards capital spending, enabling debt charges to be maintained below the 5% Prudential Code limit up to 2018-19. Table 3 (Option B) above includes an additional contribution of £1.150m giving a revised contribution of £3.3m (£3.048m to be utilised in 16-17, £0.220m to be transferred to reserve to be used to fund future capital spending). Should Members be minded to approve Option A then it is proposed that this contribution be reduced by £0.9m (representing the loss of funding from a council tax freeze) to £2.4m.

Budget Savings

4.9 As is indicated in Table 3, the Core Budget Requirement for 2016-17 (which includes provision for pay and inflation, inescapable commitments and new investment) has been assessed as £77.384m. 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 identifies the savings target required and summarises how those targets would be achieved.

TABLE 4 – BUDGET SAVINGS REQUIRED 2016-17

	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 £0.988m of recurring savings which can be removed from base budget.	(0.988)
Retained Pay – Activity anticipated to reduce as a result of changes to activity levels and asset utilisiation on some stations	(0.302)
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. 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	(1.421)
Support Staffing – In order to meet financial challenges over the coming years, a strategy has been set to reduce support staff numbers and therefore managers have deleted 16.5 posts from the support staff establishment, resulting in a saving of £0.511m	(0.511)
TOTAL BUDGET SAVINGS (£m)	**(3.222)**

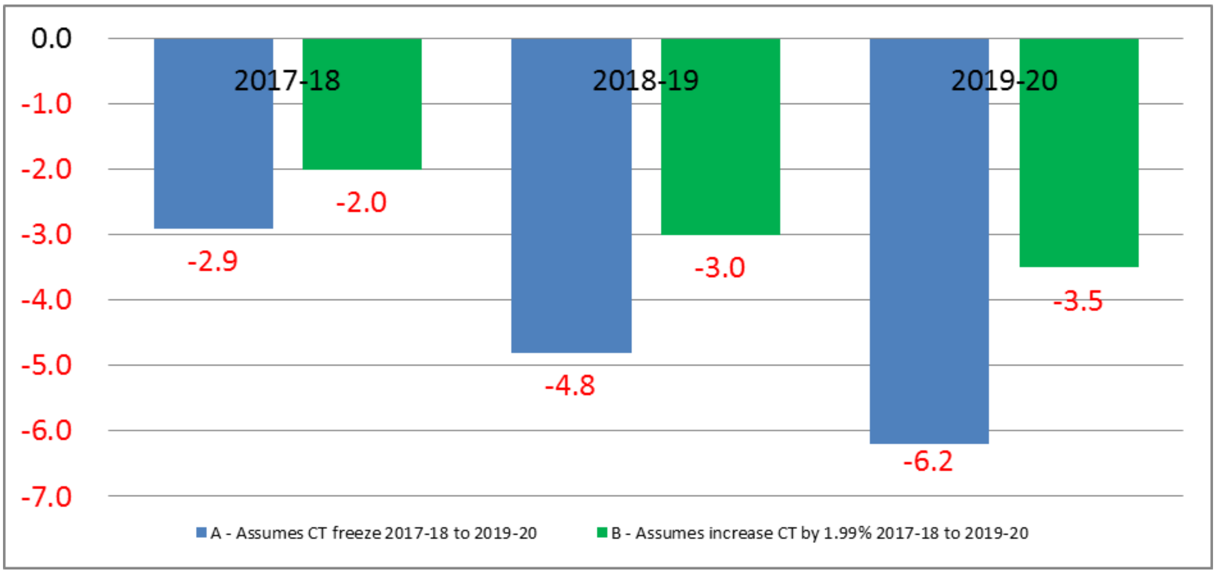
5. MEDIUM TERM FINANCIAL PLAN

5.1 Given that indicative grant figures up to 2019-20 have been received, there is now potential for greater certainty of the funding situation over the medium term. This means that the Medium Term Financial Plan needs to be planning for further significant reductions beyond the saving of £3.2m achieved in 2016-17.

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 Medium Term Financial Plan to inform financial planning and provide updated forecasts of the levels of budget reductions required by 2019-20 to balance the budget.

5.3 The Medium Term Financial Plan financial modelling tool has assessed a likely 'base case' scenario in terms of savings required over the period 2017-18 to 2019-20. Chart 1 provides an analysis of those forecast savings required in each year.

CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE) 2017 TO 2020 (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 £6.2m by 2019-20). As is stated earlier in this report each 1% increase in council tax results in additional precept of £0.452m. Should it be agreed to increase by a further 1.99% (not subject to a decision at this meeting) in each year from 2017-18 to 2019-20 then the saving target by 2019-20 would be reduced from £6.2m to £3.5m.

5.5 It is only a legislative requirement for this report to consider a council tax level for 2016-17, however, as future levels will be set as part of the annual budget setting process, the issue of a council tax strategy during the Spending Review period will be vitally important at the point that the Authority considers whether it is to accept the government offer of a four-year settlement. This consideration will be subject to a further report to the Authority when more detailed information is available on the offer, including the timetable for acceptance.

6. **PLANS TO DELIVER SAVINGS 2016-2020**

Our Plan 2016 onwards

6.1 This budget report proposes a balanced budget for the next financial year 2016-17 including proposals as to how budget savings can be achieved.

6.2 The Corporate Plan, approved by the Authority at its meeting held on the 10 July 2013, included a range of proposals, which when fully implemented will deliver total on-going savings of £6.8m. It is recognised, however, that not all of this sum will be deliverable by 2016-17 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 £1.4m are targeted to be achieved towards this total in 2016-17.

6.3 Looking beyond 2016-17 it is clear that the Authority needs to plan for the delivery of further recurring savings to ensure that balanced budgets can be set in each year of the Spending Review period. As has been previously shared with Members our strategic approach to deliver the required savings is targeted against the three broad headings of:

- **Reducing our costs** (reductions against budget lines)
- **Reduce Support Costs** (staffing budget lines)
- **Reduce Operational Costs** (staffing budget lines)

6.4 Officers are currently developing a range of proposals under each of these headings in order to achieve the required savings and meet our Integrated Risk Management Plan objectives. Consideration of proposals for further savings beyond 2016-17 will be subject to Authority consideration.

7. PRECEPT CONSULTATION 2016-17

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 14 December 2015, the Authority considered the issue of council tax precept consultation and resolved (Minute DSFRA/42 refers):

"That Option C as set out in report DSFRA/15/30 (consulting the business community via telephone survey and with the public via street level face to face surveys) be undertaken in relation to the Authority's proposed expenditure and level of council tax precept for 2016-17".

7.4 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).

7.5 The business survey commenced in the week beginning Monday, 4 January 2016 and was undertaken by BMG Research.

7.6 Again in line with the Authority decision, a street level face-to-face survey was undertaken using our own staff. The questions used closely followed the format used for the business telephone survey. To maximise the value of this time, the opportunity was taken to distribute the Home Safety booklet and remind people to remain vigilant on home safety issues at the start of the New Year. The survey was publicised through the Service's social media feeds.

7.7 Face-to-face surveys with members of the public were conducted by Devon & Somerset Fire & Rescue Service staff in Plymouth, Torquay, Exeter and Taunton on 8, 13, 15 and 20 January 2016 respectively. A total of 253 responses were obtained.

7.8 The results obtained from businesses and members of the public have been brought together in the charts below for ease of comparison. The full results of the business and public surveys can be found in Appendix D and E.

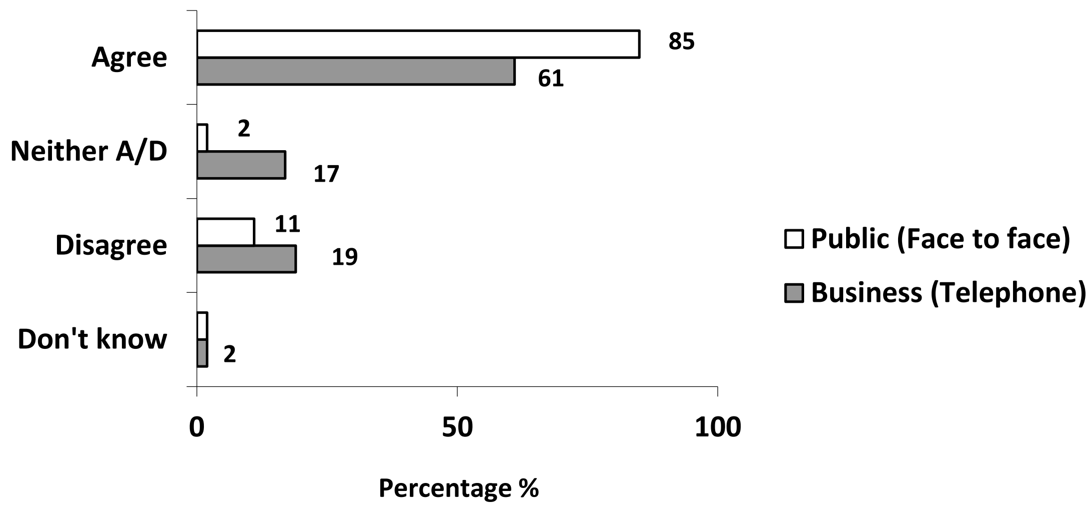
RESULTS

7.9 Due to rounding the percentages in the graphs may equal 100% + or – 1%.

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?

7.10 The results for Question one, shown in Chart 2, 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. Members of public were more positive with 85%in agreement that it was reasonable for the Authority to consider increasing Council Tax charges. Members of the public were also less neutral than business respondents.

Chart 2: Question 1 results of agreement to consider increasing the precept



Count (unweighted) Business responses 400, Public responses 253

7.11 The 2016 results of the business survey show a slight increase in the level agreement for the Authority to consider an increase to the precept over the last two years: up from 53% in 2014 and 57% in 2015. The majority of this change reflects movement in opinion from 'disagree' to 'agree'. The results for the public street survey also showed an increase in agreement over previous year's results of 74% in 2014 and 79% in 2015. The increase in agreement in 2016 appears to have come from mainly a reduction in those responding 'Neither agree nor disagree'.

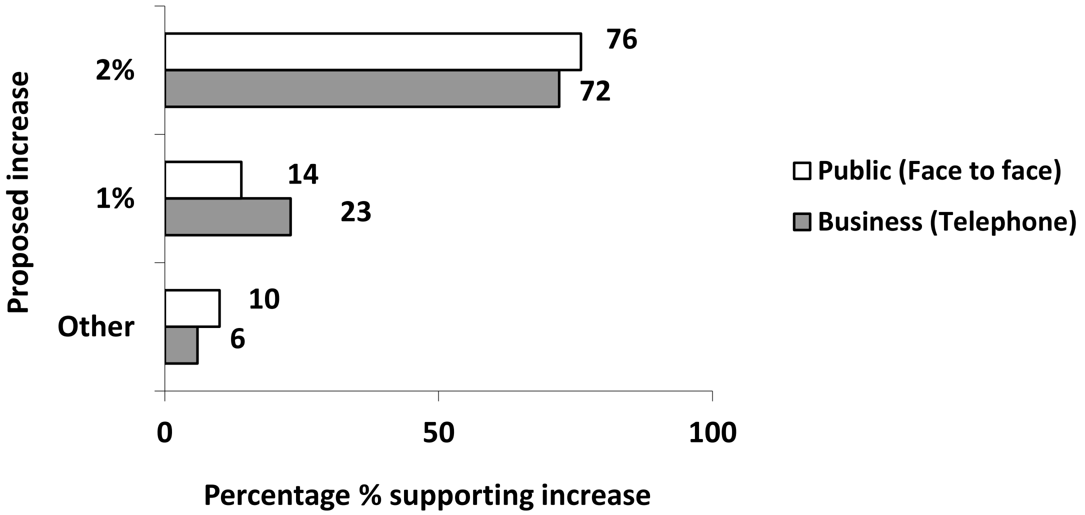
7.12 These results suggest support from businesses and members of the public for the Authority to consider increasing the precept to minimise the impact of cuts to the government grant.

7.13 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?

7.14 The majority of business respondents (72%) were in favour of a 2% increase to the precept as seen in Chart 3. Similarly, the majority of public respondents (76%) were also in favour of a 2% increase.

Chart 3: Question 2 results of options to increase the precept



Count (unweighted) Business responses 248, Public responses street 214

7.15 There was a marked increase in support from both businesses and the public for a 2% increase in Council Tax when compared with the 2015 results of 61% for businesses and 67% public.

7.16 Of those business respondents who indicated an increase other than 1 or 2% (14 respondents), the majority suggested an increase greater than 2% (8) respondents, with figures ranging from 3% up to 15%. The most common suggestion was an increase of 5% (4 respondents).

7.17 The increases given by members of the public who gave an ‘Other’ response (17 respondents) ranged from 0.1% (1 respondent) to 5%, which was the most common increase (8 respondents).

7.18 Those business respondents who disagreed to Question 1 were asked why and their responses recorded. A full record of the 74 verbatim comments is provided in Appendix D. These comments have been since been themed and a summary of the top five themes are provided in Table 4.

Table 4: Theme summary of the comments given for disagreement to Question 1.

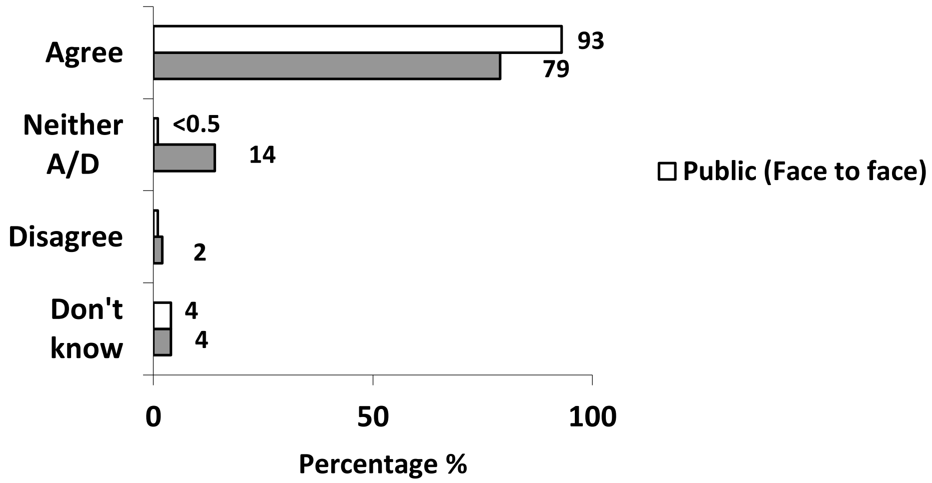
Theme	Count
The Government should not cut the funding to the fire and rescue service and should fund it better.	21
The fire and rescue service already receives reasonable funding and the tax charge is high enough without putting up Council Tax.	14
The fire and rescue service is an essential service and it would not be wrong to put up council tax. (Comments in support recorded)	10
Efficiencies in the local and national organisation of the fire and rescue service should come before increasing Council Tax.	9
General costs are increasing enough as it is and wages have not increased for an increase in Council Tax to be affordable, everyone else is having cut backs	8

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

7.19 Chart 4 below shows that business respondents agreed that the Service provides value for money. The level of agreement from businesses (79%) was similar to that recorded in the 2015 survey (81%).

7.20 For members of the public, 93% agreed that the Service provides value for money. This result is slightly lower than the 99% agreement recorded in the 2015 survey, but is the same result as achieved in the 2014 survey.

Chart 4 – How strongly do you agree or disagree that the Service provides value for money?
Chart 4: Question 3 results of agreement with providing value for money

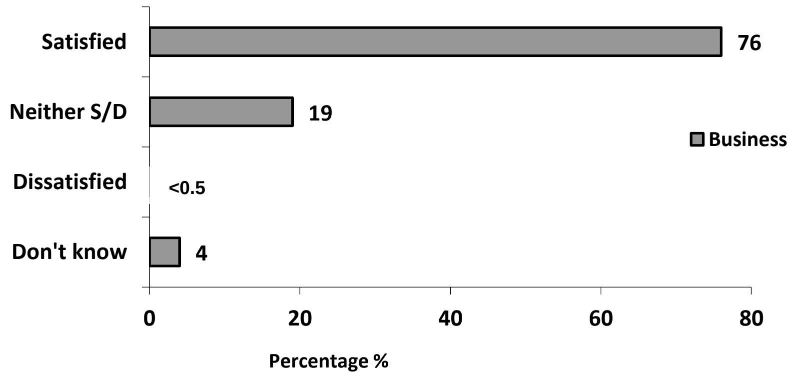


Count (unweighted) Business responses 400, Public responses street 249

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

7.21 Chart 5 below shows that the majority of respondents were satisfied with the service provided by the Service. Levels of satisfaction appear fairly consistent over the last three years with results of 78% satisfaction recorded in 2014 and 74% in 2015. Only one respondent expressed dissatisfaction but provided no explanation as to the reason. This question was not put to members of the public in order to reduce the time taken to complete the survey.

Chart 5: Question 4 results of satisfaction with Service.



Count (unweighted) Business responses 400.

CONCLUSION

7.22 The results of the consultation indicate that a significant majority of businesses and members of the public feel it would be reasonable for the Authority to consider increasing its precept for 2016/17. Those who agreed that it would be reasonable to consider an increase in the Council Tax precept were predominantly in favour of a 2% increase (72% of business respondents and 76% of public respondents who agreed it was reasonable to consider an increase).

7.23 Business respondents agreed 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. Members of the public also agreed that the Service provided value for money.

7.24 Compared with the surveys conducted in 2014 and 2015 there appears to be an increasing sentiment from both business and public respondents that the Authority should consider increasing the Council Tax precept. There also appears to be increasing sentiment to increase the level of Council Tax by 2% when compared to the 2015 survey results.

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 B to this report.

9. SUMMARY

9.1 The Authority is required to set its level of revenue budget and council tax for 2016-17 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 the Authority.

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 Authority, to be held on the 19 February 2016.

KEVIN WOODWARD	**LEE HOWELL**
Treasurer	**Chief Fire Officer**

APPENDIX A TO REPORT RC/16/3

DRAFT REVENUE BUDGET REQUIREMENT 2016-17 (BASED UPON OPTION B FOR ILLUSTRATIVE PURPOSES)

	2016/2017		
	£'000	£000	%
Approved Budget 2015-16		**74,710**	
Provision for pay and prices increase			
Uniformed Pay Award (assume 1.0% from July 2016)	431		
Non-uniformed Pay Award (assume 1% from April 2016)	102		
Prices increases (assumed 2% CPI from April 2017)	16		
Pensions inflationary increase (2% from April 2017)	0		
		549	0.7%
Removal One-off Provisions for 2015/16 only			
Change and Improvement Programme	(323)		
		(758)	
Inescapable Commitments			
Increase in debt charges emanating from agreed capital programme	202		
National Insurance end of contracted out rebate	953		
Increased Medical costs as a result of Asbestos testing	102		
Other ongoing commitments	50		
		1,308	
New Investment			
Transfer to Reserve for Capital	220		
Revenue Contribution to Capital	930		
		1,150	
Income			
Reduce Red One Contribution target	99		
Remove one off National Procurement income	379		
Investment income due to high yields/cash	(37)		
NNDR/ Sparsity Section 31 grant (unconfirmed)	(16)		
		426	
Savings in 2016-17			
Implementation of staffing reductions linked to IRMP	(1,421)		
Reduction in Retained activity levels	(302)		
Support staff reductions	(511)		
Reduction in lease charges	(516)		
Reduction to pension charges for IHR/ Injuries	(101)		
Training/ Seminars	(101)		
Estates (Property Maintenance)	(129)		
Light vehicles/ travel/ subs/ mileage	(141)		
		(3,222)	
CORE BUDGET PROPOSAL		**74,163**	

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 2016-17 BUDGET

The net revenue budget requirement for 2016-17 has been assessed as £74.135m (Option B in report). 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 2017, 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.

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 2016-17 to 2019-20. 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.

TABLE 1 – BUDGET SETTING 2016-17 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO VOLATILE CHANGES

Budget Head	Budget Provision 2016-17 £m	*RISK AND IMPACT*	MITIGATION
Retained Pay Costs	12.3	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 2016-17, allowance has been made for a potential overspend on this budget.
		In 2008 the Part-Time Workers (less than favourable working conditions) tribunal ruled in favour of retained firefighters having the same conditions of service in relation to pension and sickness benefits as wholetime firefighters. The next Government Actuarial Valuation (due during 16-17) of future pension costs will include these retained firefighters for the first time, which may significantly change the rate of employer's pensions contributions payable from 2017-18.	An Earmarked Reserve of £1.5m has been set aside for the impact of the ruling from the Part Time Workers tribunal. However, until final valuations are complete the full extent of the impact to rates and therefore the Service budget cannot be quantified.
Fire-fighter' s Pensions	2.8	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 2016-17 an allowance has been made for a potential overspend on this budget
Insurance Costs	0.8	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 2016-17 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 2016-17 an allowance has been made for a potential overspend on this budget
Treasury Management Income	(0.2)	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 2016-17 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	(0.6)	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	5.1	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.
Business Rates	(0.4)	There is a high degree of uncertainty over levels of Retained Business rates income and the method of allocation between funding and revenue grants in future years.	There is a specific reserve of £0.5m set up for NNDR smoothing in future years although this is not expected to be utilised in 2016-17.

THE ADEQUACY OF THE LEVEL OF RESERVES

Total Reserve balances for the Authority as at April 2015 is £23.8m made up of Earmarked Reserves (committed) of £18.5m, and General Reserve (uncommitted) of £5.3m. 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 £5.3m is equivalent to 7.1% of the total revenue budget, or 26 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 has been highlighted on a number of occasions in recent times. For instance the impact of the deterioration of the banking system and in 2008 exposed some authorities to potential loss of investments held e.g. Northern Rock and some Icelandic banks. On the back of this deterioration 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 7.1% compares to an average reserve balance of 8.7% for all fire and rescue authorities, which places this Authority in the middle quartile for all FRAs.

Given 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 2016-17 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

APPENDIX C TO REPORT RC/16/3

Lee Howell
CHIEF FIRE OFFICER

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

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

Your ref :		Date :	15th January 2016	Telephone :	01392 872200
Our ref :		Please ask for :	Mr Woodward	Fax :	01392 872300
Website :	www.dsfire.gov.uk	Email :	kwoodward@dsfire.gov.uk	Direct Telephone :	01392 872317

Dear Shafi,

CONSULTATION – PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2016-17

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

The Authority welcomes the opportunity to provide a response to the provisional settlement and provides at Annex A responses to those specific questions included in the document that have an impact to fire and rescue authorities.

In addition to responses to the specific questions, the Authority would also like to take the opportunity to raise some general comments below, some of which we have raised on previous occasions but disappointingly not had any feedback from your department.

- We are 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 significant savings in this area.

- The Authority is disappointed that the findings of the report commissioned by the CLG in 2014 "Research into Drivers of Service Costs in Rural Areas" found that whilst it recognises 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 £104k for the Authority in 2016-17 is very disappointing and does very little to redress the inequitable distribution, which is currently 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 on Rural Services which has asked for the 50% gap in grant funding between urban and rural areas to be reduced in stages to 40% by the year 2020.

- We are disappointed that the 2016-17 settlement has removed the capital grant allocations previously made available to fire and rescue authorities. Whilst the Authority received no allocation from the bidding process in 2015-16, previous years has seen annual allocations of up to £2m, which has provided very helpful financial support to our capital investment programmes. Given that the Authority has a substantial asset base, second only to London in terms of numbers of fire stations and vehicles, the removal of this grant places increasing financial pressure on our capital spending plans at a time that the Authority is very reluctant to incur further external debt given the affordability of the resultant revenue debt charges.

- 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 to be possibly achieved, meaning that no fire and rescue authority could possibly justify such a course of action. For this Authority, which has 15 billing authorities across Devon and Somerset, the cost of holding the referendum has been estimated at £2.3m (equivalent to a 6% increase in council tax).

Yours sincerely

Kevin Woodward
Treasurer to Devon and Somerset Fire and Rescue Authority

ANNEX A

RESPONSE TO QUESTIONS

We provide below our responses to the specific questions raised in the consultation document**. Please note that we are not responding to all of the Consultation Questions, just those that we consider to be especially relevant to fire and rescue authorities.**

Question 1: **Do you agree with the methodology for allocating central funding in 2016-17, as set out in paragraphs 2.6 to 2.8?**

Response – No, we cannot agree with this methodology which results in a shift of government funded resources away from the Shire Counties to the Metropolitan areas. An analysis of the changes in Government Funded Spending Power (Core Spending Power less Council Tax - which we consider to be the correct comparator as Council Tax is, on average, higher in rural areas than urban areas due to the historic underfunding of rural areas) highlights that metropolitan fire and rescue services are facing a 15% reduction (2015-16 compared to 2019-20) compared to a 23% reduction to predominantly rural services.

We cannot agree with the principle behind this methodology that those Authorities most reliant on government funding should be protected. This principle fails to reflect the fact that, Council Tax is, on average, already significantly higher per head of population in rural areas compared to urban due to historic underfunding of rural services by successive governments. We feel that it is therefore unfair to protect those more urban areas at the expense of the more rural areas.

Question 2: **Do you agree with the proposed methodology for calculation of the council tax requirement for 2016-17, as set out in paragraphs 2.10 and 2.11?**

Response – Yes, the proposal to use individual authority 2015-16 council tax requirement figures would provide the most accurate assessment, and provide the incentive to improve the base figure through new housing developments.

Question 3: **Do you agree with the proposed methodology in paragraph 2.12 for splitting the council tax requirement between sets of services?**

Response – Yes.

Question 4: **Do you wish to propose any transitional measures to be used?**

Response – No.

Question 6: **Do you agree with the Government's proposal to hold back £50 million to fund the business rates safety net in 2016-17, on the basis of the methodology described in paragraph 2.19?**

Response – Whilst we agree with the proposed methodology it is of concern that we are being asked to agree to a further hold back of £50m without any detail as to how much of previously agreed hold backs have actually been called on. We would propose that further information be made available of any surplus/deficit on previous hold backs with proposals of how any balance is to be redistributed.

Question 7: **Do you agree with the Government's proposed approach in paragraph 2.24 to paying £20 million additional funding to the most rural areas in 2016-17, distributed to the upper quartile of local authorities based on the super-sparsity indicator?**

Response – Yes. As a beneficiary of this funding (£104k in 2016-17 rising to £340k by 2019-20) we naturally welcome the proposal for it to continue and be increased. However, it has to be said that an increase of just £23k in 2016-17 over 2015-16 pales into insignificance when compared to the shift in government funded resources away from the Shire counties towards the Metropolitan areas (as highlighted in response to Question 1). The Question implies there is £20m extra funding in 2016/17 when, in fact, there is just a £4.5m increase to bring the 2015/16 level up to £20m.

It is also extremely disappointing that the extra £50m (by 2019/20) over and above the £15.5m paid in 2015/16 is to be "back-end loaded".

We also challenge the perceived impression given by the Secretary of State's Statement "by which time (2019/20), when 100% business rate retention has been achieved, we can consider what further correction is due", that this may be sufficient. It is not. The Consultation Document shows that 77.5% of the additional funding is in respect of Adult Social Care. This means that £14.74m (of the 2019/20 £65.5mm) is for all other local government services across all tiers of Principal Councils. This is woefully inadequate and 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 continue to be very concerned about the disproportionate impact that the current approach to funding reductions is having on the most rural fire authorities, which has resulted in most urban authorities having 50% more grant funding per head than rural authorities. We support the All Party Parliamentary Group on Rural Services which has asked for the 50% gap to be reduced in stages to 40% by the year 2020.

Question 10: Do you agree with the Government's proposal to include all 2015-16 Council Tax Support Grant funding in the settlement and with the methodology set out in paragraph 3.3?

Response – Yes.

Question 11: Do you agree with the Government's proposal to include all 2015-16 Efficiency Support Grant funding in the settlement and with the methodology set out in paragraph 3.5?

Response – Yes.

Question 15: Do you agree with the Government's proposal to adjust councils' tariffs / top ups where required to ensure that councils delivering the same set of services receive the same percentage change in settlement core funding for those sets of services?

Response – It is difficult to comment on the specific proposal to adjust tariff/top ups to deliver the intended principle before we have more detail (consultation document, due to be published in the summer of 2016) relating to the major move to a 100% locally retained business rates system. All fire and rescue authorities fall into the category of "Top Up" and need assurance that the move to 100% retention will not have a detrimental impact to overall control totals to 2019-20 and beyond.

As highlighted in our response to Question 1, we strongly object to the new methodology which supports the principle that shifts government funded resources away from the Shire Counties towards the Metropolitan areas.

Question 16: Do you have an alternative suggestion for how to secure the required overall level of spending reductions to settlement core funding over the Parliament?

Response – As stated in our response to the previous Question 15, it is difficult to make too much comment without more detail on the impact of the move to a 100% local business rates system.

Question 17: Do you have any comments on the impact of the 2016-17 settlement on persons who share a protected characteristic, and on the draft equality statement published alongside this consultation?

Response – Yes. As we have already stated in our response to Q7, 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 authorities 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.

REPORT REFERENCE NO

Prepared for: [Type the document subtitle]

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Table of Contents

1 Introduction

1.1 Background and method

In December 2015, Devon and Somerset Fire and Rescue Service (DSFRS) commissioned BMG Research to undertake a survey amongst 400 businesses. The purpose of the survey was to assess the opinions of business decision makers on how DSFRS should approach setting its budget for 2016/17 and on whether the Service is currently deemed to be providing value for money.

The questionnaire for the survey was provided by DSFRS. The contacts for the survey were purchased by BMG Research from a commercial database provider. To ensure the survey was broadly representative, quotas were set by local authority district (LAD), number of employees and broad industry sector. The data has been weighted (adjusted) by these characteristics to correct for any under or over-representation in the final data set.

In total, 400 interviews with businesses were completed during January 2016. Details of the profile of the sample can be found in appendix 2, and a breakdown of call outcomes can be found in appendix 3.

On a sample of 400 the confidence interval at the 95% level is +/- 4.3%. This means that if a statistic of 50% was observed, we can be 95% confident that the true response among the total population lies between 45.7% and 54.3%.

This report summarises the main findings from the survey.

1.2 Whether it is reasonable for DSFRS to consider increasing its element of the Council Tax charge for 2016/17

Respondents were provided with the following contextual information regarding DSFRS:

'Devon and Somerset Fire and Rescue Authority is committed to maintaining a professional service across the two counties whilst addressing the funding cuts passed down by the Government. The service provides 85 local fire stations across Devon and Somerset and employs approximately 2,200 staff, helping to keep safe a population of 1.7 million. On average the service attends around 18,000 incidents each year, which includes flooding, road traffic collisions, fires and other emergencies. The Authority would like your feedback about its level of Council Tax precept for the coming year and how satisfied you are with the service it provides.'

They were then informed of the following:

'Devon & Somerset Fire & Rescue Authority is considering its Council Tax charges for 2016/17. The current charge is £78.42 a year for a Band 'D' property. Over the last few years the Government has been reducing the Authority's funding, which means that by 1 April 2016 its funding will have been reduced by approximately £5.5million since 1 April 2013. A further £7.3million reduction is anticipated by 2019/20.'

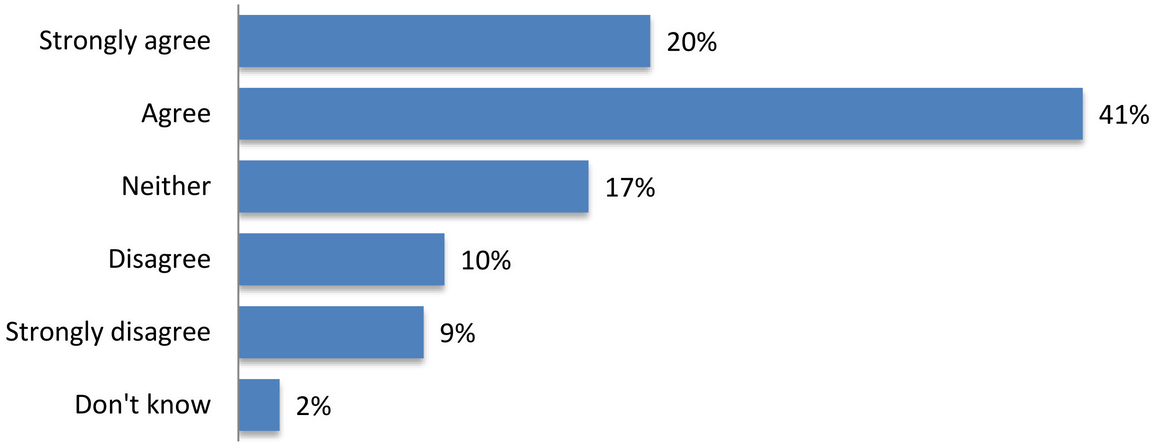
Respondents were asked how strongly they agree or disagree that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2016/17 in order to lessen the impact of the funding cuts.

Over three in five (62%) of businesses agreed that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2016/17, while less than a fifth (19%) disagreed that it is reasonable for them to do so, resulting in a net agreement[1] of +43%.

Agreement was consistent by industry sector, gender and age, although respondents in Somerset were somewhat less positive (53% agreed it is reasonable for DSFRS to consider increasing its Council Tax charge).

[1] Net agreement = the proportion who strongly agree/agree minus the proportion who disagree/strongly disagree.

Figure 1: Agreement or disagreement that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2016/17 (All respondents)



Unweighted sample base: 400

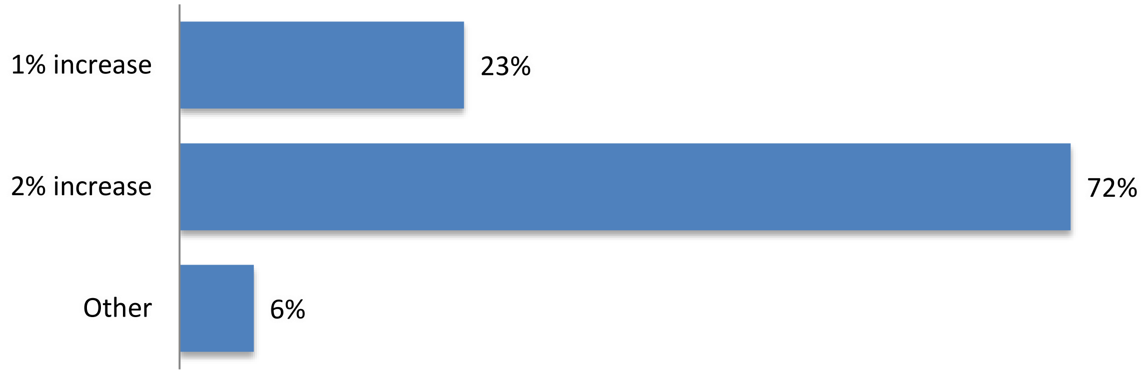
1.3 Level of increase that would be reasonable

Those respondents who agreed that it is reasonable for DSFRS to consider increasing its Council Tax Charge for 2016/17 were asked at what level the increase should be;

1. 1%, this would be an increase of 78p per year
   - Equals a total charge of £79.20 for a Band 'D' property
2. 2%, this would be an increase of £1.57 per year
   - Equals a total charge of £79.99 for a Band 'D' property
3. Some other level of increase

The largest proportion of respondents opted for a 2% increase (72%), and this was consistent by industry sector, gender and age, although again the response in Somerset was directionally lower (63% felt there should be a 2% increase).

Figure 2: Level of increase that would be reasonable (Those respondents agreeing that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2016/17)



Unweighted sample base: 248

Where respondents offered an 'other' response (14 respondents), the majority suggested an increase greater than 2% (8 respondents), with figures ranging from 3% up to 15%. The most common suggestion was an increase of 5% (4 respondents).

Other comments provided include the following:

'I would rather them charge an extra fiver for everyone.'

'It depends how much it would make a difference overall.'

1.4 Reasons for disagreeing that it is reasonable for DSFRS to increase its element of the Council Tax charge for 2016/17

Those respondents who disagreed that it is reasonable for DSFRS to consider increasing its element of the Council Tax charge for 2016/17 (19%) were asked why they disagreed. Typical comments made by respondents are highlighted below, and the full list of comments is available in appendix 1 of this report.

'I don't think they should be asking businesses. They should be going to the Government and make an effort to stop the lack of effort of the Tory party.'

'I think there is a lot of wastage within the fire service. The current funding can be better used. They should look to see if the shortfall can be made elsewhere before raising council tax.'

'The council tax should be coming centrally.'

'Pay too much council tax already.'

'They should be getting it from Government not from us. Public service cuts have gone too far. There is always an area to reduce some overheads but not all. Some savings are there, for example joint purchasing of equipment, but when it comes to providing services to the public, that's crazy.

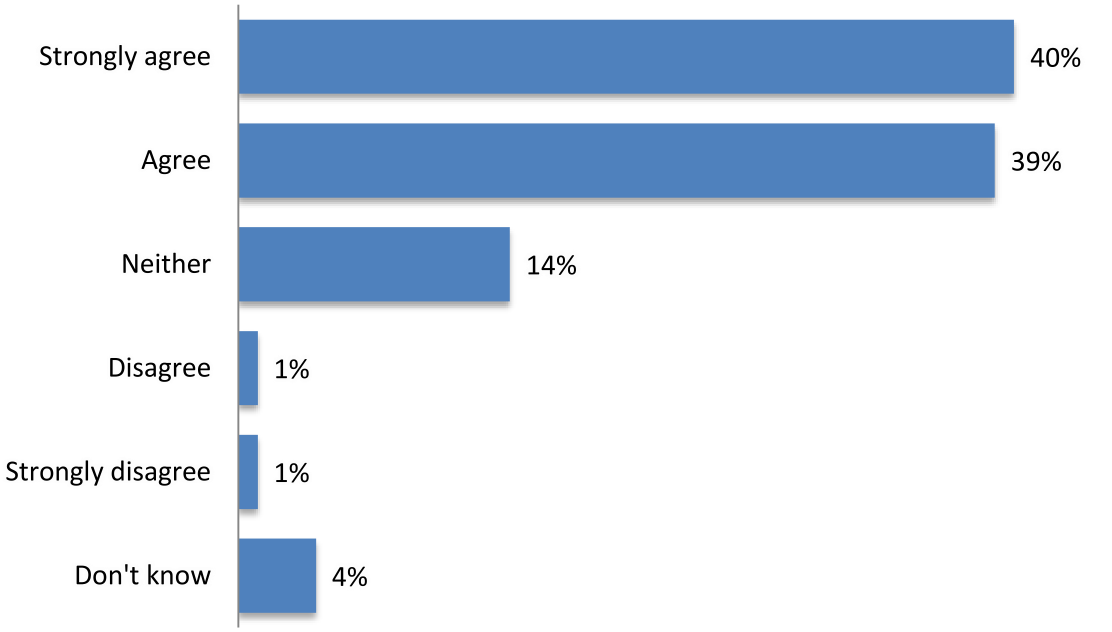
'If you were to have a fire, they wouldn't come because we are a farm, also it wouldn't get to us on time. Only way to get to us quick is by air ambulance.'

1.5 Agreement or disagreement that DSFRS provides value for money

All respondents were asked if they agree or disagree that DSFRS provides value for money.

Four in five (79%) of businesses agreed that DSFRS does provide value for money, with only a small proportion of respondents disagreeing (2%), resulting in a net agreement of +77%.

Figure 3: Agreement or disagreement that DSFRS provides value for money (All respondents)



Unweighted

sample base: 400

1.6 Reasons for disagreeing that DSFRS provides value for money

The 10 businesses who disagreed that DSFRS provides value for money were asked why they disagreed, and, where provided, their reasons for this are listed below.

Dealt with them on various occasions, believe they waste money.

I have a couple of friends in the fire brigade and I've heard they spend a lot of time playing sports and in the gym. Their time should be used better. For me to pay more for the service is outrageous. It's poor, very poor.

Same reason - if you was to have a fire, they wouldn't come because we are a farm, also it wouldn't get to us on time. Only way to get to us quick is by air ambulance.

When I see them in action, they all do the same job, slow response, a lot of duplication.

I don't do their job so don't know if they provide value for money or not.

With the cuts they make they have to keep cutting back.

By virtue that the cost is £46 and we're being charged £65. Why am I not getting better value and I'm being charged £65. That difference doesn't make sense to me. I expect more value for money.

Waste of money due to them spending on things like a building which they do not use.

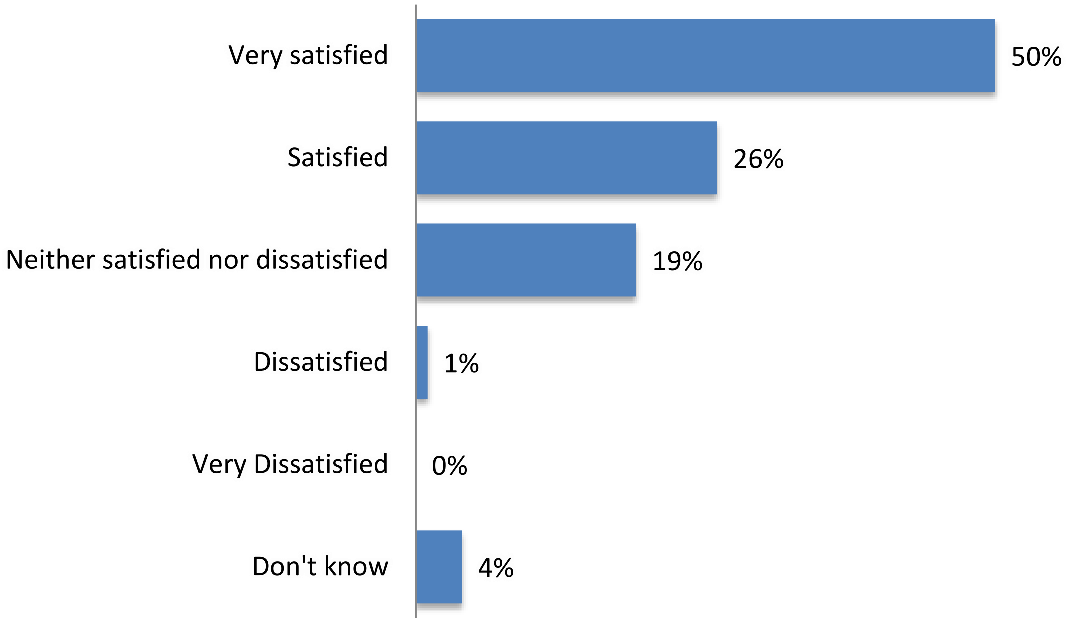
Because they don't turn up on time.

Because they make multiple visits which are unnecessary.

1.7 Satisfaction with the service provided by DSFRS

All respondents were asked how satisfied or dissatisfied they are with the service provided by DSFRS. Three quarters (76%) of businesses were satisfied with the service provided, and only three respondents expressed dissatisfaction, yielding a net level of satisfaction of +75%.

Figure 4: Satisfaction with the service provided by DSFRS (All respondents)



Unweighted sample base: 400

1.8 Services used

To contextualise the findings reported above, all respondents were asked if they had used any of ten specific services provided across Devon and Somerset.

Overall, over three in five (59%) reported using at least one of the services, most commonly a fire safety audit (27%) at a business.

Respondents in Torbay were more likely than those elsewhere to report having used any of the services (78%, compared to 49% in Plymouth, 59% in Devon and 59% in Somerset).

Table 1 Services used

	Businesses
Fire safety audit/ check in a business	27%
Community event	22%
Home fire safety visit / smoke alarm fitting	19%
Other fire safety advice	13%
Emergency response - house fire	10%
Community use of fire stations	10%
Youth education	10%
Emergency response - other rescue	6%
Emergency response - co-responder	6%
Emergency response - road traffic collision	6%
Emergency response - flooding	3%
Other service (please specify)	2%
Unweighted sample base: 400	

2 Appendix 1: Overview of verbatim responses

2.1 Reasons for disagreeing that it is reasonable for DSFRS to increase its element of the Council Tax charge for 2016/17

I think the fire and rescue are still too many individual authorities, too many seniors, the number of authorities, the fire pensions and age too low, pensions too high. More opportunities nationally. Also the fire and rescue too brief what the public expect. Under the fire reform of 2005 the cost of fire could be claimed from business and insurer. It is both an enforcement authority and the service, that's a conflict of interest!

Because I don't think the funding would be cut in the first place.

Costs are going up.

Charge is high enough, the government have enough money and they should use it wisely.

Fire and rescue don't effect council tax, don't see why we should pay more on council tax, should come through government. I would like answers in regards to where the money is going that I'm paying.

I don't think they should be asking businesses. They should be going to the Government and make an effort to stop the lack of effort of the Tory party.

Because it's an essential service that everyone needs.

It would put my council tax up by a lot.

Don't know.

I think there is a lot of wastage within the fire service. The current funding can be better used. They should look to see if the shortfall can be made elsewhere before raising council tax.

Because the government should be funding it not the general public.

Wages are not being increased.

Goverment should not be reducing its costs.

I don't think it's wrong to increase council tax. I think the fact that the government are taking away from important services is wrong.

Goverment should be putting more money into it.

Paying enough tax already.

The amount of houses being built are getting more revenue as well from that.

The council tax should be coming centrally.

Providing a service which is necessary.

They get enough as it is.

The government are offered money by the council to raise money by building. We are being penalized.

It's a very important service

Doesn't seem to be a burden for a single person

Don't think they should make cuts, much worth spending on fire.

We need to invest more money in it obviously.

The Goverment should raise the money for the fire and rescue service, like NHS and military, instead of sending money abroad.

It should be totally government funded.

Because the local authority should discuss it with the people first.

My council tax is high enough.

They should get government funding.

Because they're reasonably funded anyway. Funding should be centralised anyway and don't see the funding coming for them anyway.

Pay too much council tax already.

They should be getting it from Government not from us. Public service cuts have gone too far. There is always an area to reduce some overheads but not all. Some savings are there, for example joint purchasing of equipment, but when it comes to providing services to the public, that's crazy.

We pay enough on council tax as well as business rates.

The rates we pay are astronomical.

The government should not take money from council tax, government nor the police because it is a form of additional taxation, some people who may not have pay rises and not enough pay to eat.

Fire and Rescue Authority have run on low budgets in the past. They should use their experience of working on low budgets now.

It is because if they increase the charge it will increase tax for tax payers.

We are a small company and we are struggling with paying out at the moment.

Because you need more funding to do what you need for your job.

Because everyone keeps on putting the council tax up and people can not afford to pay it.

Because mismanagement and poor organization. They should look at themselves before looking elsewhere.

We need these services and do not want these services to be put under pressure. Not fair to have decreased funding by government.

We as xxxx traders are on managed margin, and if they cut our pay we can't make that money up from anywhere, so why should we have to pay more council tax. I think the government need to become more commercial.

I disagree because we still get flooding on our road and they're building more houses which means the flooding is going to get worse.

The council should find other ways of saving money.

Fire and Rescue should cut its costs by restructuring and reengineering

They should come out of central funds.

People in the force retire too early.

Not value for money.

They should cut funds accordingly, cut fire and police budget.

They keep the same money for what they are putting into it now. Why do they need to increase council tax charge, why do they need to reduce funding.

It's important to keep the emergency services going - they are essential.

When they arrive it's exceptional. I'm situated far from town and when we call for emergencies I have to wait 45 minutes. I wouldn't pay more council tax when the service is not provided in the first place.

If you were to have a fire, they wouldn't come because we are a farm, also it wouldn't get to us on time. Only way to get to us quick is by air ambulance.

I believe they can do it, the fire service and don't believe in the fat cats. That's the local councils.

As well as the police, we should give all the funding they need. They provide a good service.

There's too many managers and not enough people on the ground.

The Government should pay.

They shouldn't increase it because our council tax charges are going up anyway. Why do government allow themselves to be paid more, so if to compare wages and the ability to pay for these services.

They should have more funding but it should come from the council. The council doesn't do the job the council tax pays for.

It is because of the efficiency made in the industry and proposed government cuts.

The council tax going up.

Majority of firemen have a double lifestyle, they are paid for the work they do and then have a second job.

Could be more efficient in man power.

Fire and Rescue service should be reduced, most of the call outs are for businesses and flooding. National issue for flooding and business call outs should be funded through business rates. The whole thing shouldn't be taken from council tax, nationally funded.

Pay enough on revenue and taxes.

Because we pay enough in tax already. Millions are wasted with things like the Fire centre in Taunton and nobody uses it. Absolute disgrace.

The Fire service did not do their job properly when they could have used another fire brigade to put out the fire.

Because they have been called here twice and I've put the fire out before they arrived. Not getting the money's worth for the service we are paying for. On one incident they went to the wrong location. There's a guaranteed time they should arrive by and this was doubled and another time they were an hour late. Unfair tax as well, based on someone's opinion what the house was worth.

The government should not play economic games with the fire service.

Everyone is having cut backs. Things should be maintained at the current level of expenditure.

The government should be able to find more efficient for value for money themselves.

Keeps going up and we don't get anything for it.

Appendix 2: Profile Information

The following tables outline the unweighted and weighted demographic profiles of the sample.

Table 2 – Local authority district

Local authority district	Unweighted		Weighted	
	%	Number	%	Number
Torbay	10%	41	7%	26
Plymouth	12%	46	9%	35
Devon	48%	192	53%	211
Somerset	30%	121	32%	128

Table 3 – Respondent age

Age	Unweighted		Weighted	
16 – 24 years	3%	11	3%	12
25 – 34 years	11%	44	11%	44
35 – 44 years	14%	55	13%	51
45 – 54 years	33%	133	33%	133
55– 64 years	27%	106	27%	107
65+	13%	50	13%	52
Prefer not to say	<0.5%	1	<0.5%	1

Table 4 – Respondent gender

Gender	Unweighted		Weighted	
Male	65%	259	65%	260
Female	35%	141`	35%	140

Table 5 –Industry sector

Industry Sector	Unweighted		Weighted	
	%	Number	%	Number
A to F	26%	103	27%	106
G to N, R + S	74%	297	73%	294

Table 6 –Industry size

Industry Sector	Unweighted		Weighted	
	%	Number	%	Number
1 to 49	95%	380	98%	392
50 to 249	5%	20	2%	8

Table 7 – Respondent ethnic origin

Ethnic Origin	Unweighted		Weighted	
	%	Number	%	Number
White – English/Welsh/Scottish/Northern Irish/ British	94%	376	95%	379
White Irish	<0.5%	1	<0.5%	1
White Other	2%	9	2%	7
Black British - African	1%	2	1%	2
Chinese	1%	3	1%	2
Asian – Other	<0.5%	1	<0.5%	1
Other	<0.5%	1	<0.5%	1
Refused	2%	7	2%	7

3 Appendix 3: Call outcomes

The following table shows a breakdown of call outcomes.

	Outcome	Contacts	% of total	% of in scope
In scope	**Complete**	**400**	**10%**	**17%**
	Refusal	392	10%	16%
	Respondent busy	1,632	42%	67%
	Sub-total	**2,424**	**62%**	**100%**
Out of scope	Unobtainable (modem, fax etc)	158	4%	11%
	Ineligible	70	2%	5%
	No contact made	1,254	32%	85%
	Sub-total	**1,482**	**38%**	**100%**
	Total	**3,906**		

Appendix: Statement of Terms

Compliance with International Standards

BMG complies with the International Standard for Quality Management Systems requirements (ISO 9001:2008) and the International Standard for Market, opinion and social research service requirements (ISO 20252:2012) and The International Standard for Information Security Management ISO 27001:2013.

Interpretation and publication of results

The interpretation of the results as reported in this document pertain to the research problem and are supported by the empirical findings of this research project and, where applicable, by other data. These interpretations and recommendations are based on empirical findings and are distinguishable from personal views and opinions.

BMG will not be publish any part of these results without the written and informed consent of the client.

Ethical practice

BMG promotes ethical practice in research: We conduct our work responsibly and in light of the legal and moral codes of society.

We have a responsibility to maintain high scientific standards in the methods employed in the collection and dissemination of data, in the impartial assessment and dissemination of findings and in the maintenance of standards commensurate with professional integrity.

We recognise we have a duty of care to all those undertaking and participating in research and strive to protect subjects from undue harm arising as a consequence of their participation in research. This requires that subjects' participation should be as fully informed as possible and no group should be disadvantaged by routinely being excluded from consideration. All adequate steps shall be taken by both agency and client to ensure that the identity of each respondent participating in the research is protected.

1.0 BACKGROUND

1.1 The results in this appendix were obtained from face to face surveys conducted with members of the public on the proposed level of Council Tax precept in Exeter, Plymouth, Taunton and Torquay between 8 and 20 January 2016.

1.2 The statutory requirement in Section 65 of the Local Government Finance Act (1992) requires precepting authorities to consult non-domestic ratepayers on proposals for expenditure. Although there is no statutory requirement, members of the public have been consulted as it is deemed appropriate to include the public's views on the option of increasing Council Tax at a time of economic difficulty.

1.3 This approach was agreed by Members of the Authority at their meeting on 14 December 2015 when it was resolved (Minute DSFRA/42 refers):

> that Option C as set out in report DSFRA/15/30 (consulting the business community via telephone survey and with the public via street level face to face surveys) be undertaken in relation to the Authority's proposed expenditure and level of council tax precept for 2016-17.

1.4 The questions used closely followed the format used for the business telephone survey.

1.5 Face-to-face surveys with members of the public were conducted by Devon & Somerset Fire & Rescue Service staff in Plymouth, Torquay, Exeter and Taunton on 8, 13, 15 and 20 January 2016 respectively.

2.0 RESULTS

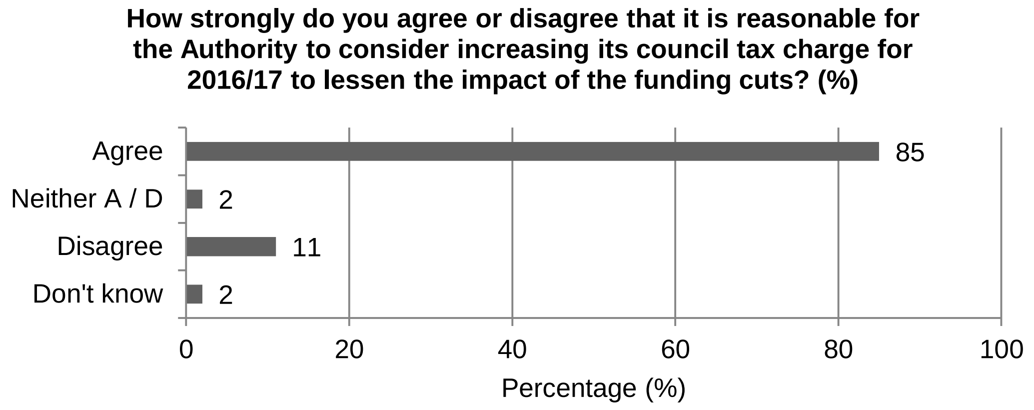
2.1 A total of 253 responses were obtained in 2016, up from 212 in 2015.

2.2 Due to rounding, the percentages shown in the graphs may equal 100% + or – 1%.

Question 1a: How strongly do you agree or disagree that it is reasonable for the Authority to consider increasing its council tax charge for 2016/17 to lessen the impact of the funding cuts?

2.3 The results for Question 1, shown in Chart 1, show that the majority of public 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.

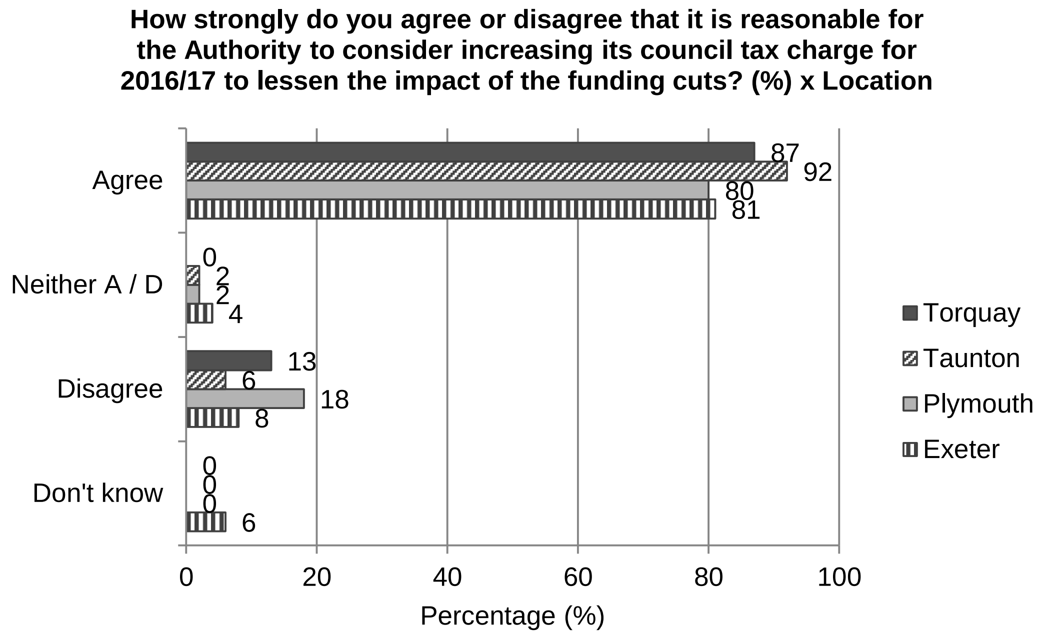
Chart 1: Results of Question 1a



Count (unweighted): 252

2.4 Results of the public street survey gave a 6% increase (79% to 85%) in agreement over the 2015 results, which were themselves a 5% increase over the 2014 figure. The increase in agreement appears to have come mainly from a reduction in the numbers of those responding ‘Neither agree nor disagree’, as the reduction in ‘Disagree’ responses was minimal (2%).

Chart 2: Results of Question 1a by location



Count (unweighted): 252 (Torquay: 55 Taunton: 52 Plymouth: 50 Exeter 95)

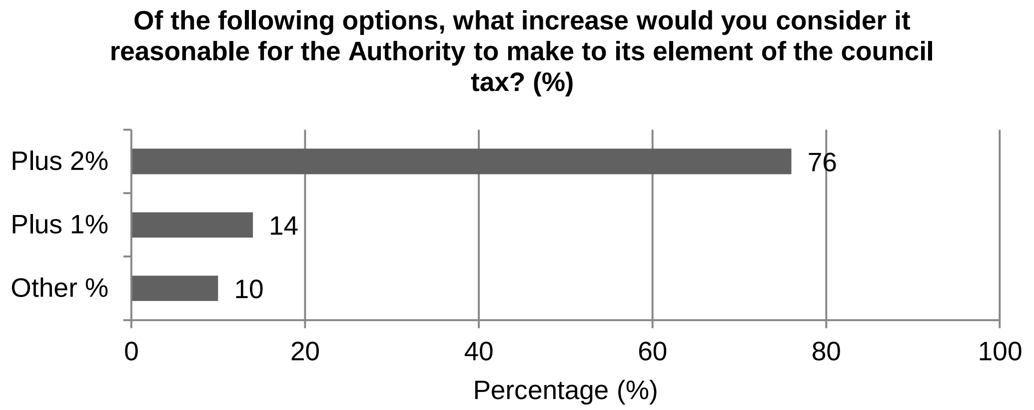
2.5 Broken down by location, the highest level of agreement was achieved in Taunton, while the lowest was seen in Plymouth. Relatively stable neutral responses meant that the level of disagreement was proportionate to the positive results.

2.6 Respondents who agreed that the Authority should consider increasing the precept were asked an additional question:

Question 1b: Of the following options, what increase would you consider it reasonable for the Authority to make to its element of the council tax?

2.7 The majority of public respondents (76%) were in favour of a 2% increase to the precept, as seen in Chart 3 below. This result shows a marked increase over the 2015 results, where 67% were in favour of a 2% increase.

Chart 3: Results of Question 1b



Count (unweighted): 214

2.8 The 'other' percentages suggested in response to Question 1b are shown in Table 1 below.

Table 1: 'Other' percentage increases suggested

	Suggested % percentage increase (number)				
	0.1	**2.9***	**3.0**	**4.0**	**5.0**
Count	1	1	2	5	8

* 2.9% was suggested as part of a longer comment, which is included in the list below.

2.9 Six text responses were also received. These suggested the following:

- 2.9%: Should be the same as the Council (1)
- More: need as much as possible (3)
- Not sure (1)
- As long as it gives to right area ie. Fire Service (1)

(The final entry above was given against support for an increase of 1%)

2.10 Those who disagreed with Question 1a, and said that it was not reasonable for the Authority to consider an increase to its element of the Council Tax, were asked the following question:

Question 1c: Why do you think that it is not reasonable for the Authority to increase its element of the council tax charge?

2.11 The responses in Table 2, below, give the 31 comments received for Question 1c

Table 2: Explanations for disagreement with Question 1a

Ref	Comments
5	Landlords should meet funding requirements
11	Expensive already
21	A pensioner - do not want to see it increase
24	It is a mixed community and there are those who cannot pay. Country is being run by volunteers to take up slack. The French would do something about it - passive resistance to take action.
25	Others have been impacted by cuts, hourly rates going down etc.
26	Others have had funding cuts.
38	I'd support more but appreciate the risk & cost of organising. I'd be happy to contribute personally like I do to the Lifeboat/Lifeguards. pop@zebra.coop offered to help promote future surveys.
41	It will get to the point where people can't afford it & it is too much as it is.
42	It will get to the point where people can't afford it & it is too much as it is.
59	Expensive enough already
65	All costs are rising. Should not increase Council Tax.
72	People are struggling enough
83	Charge enough already
100	Government has to provide more funding. Wages are not increasing to support a rise.
101	Should be provided within existing funding.
124	For those who earn more increase. For those who earn less = not
125	Don't have all the data to answer
136	Spend more wisely
137	Already pay enough. Should spend it more wisely.
143	The funding should come from government
174	Pay lots already and the government shouldn't be making cuts.
175	It's a rise in council tax by the back door so the government doesn’t get the

Ref	Comments
	blame.
187	Unable to afford
192	Pay enough taxes as it is.
202	Putting selves on the line, will get burnt, so disagree with cuts.
210	Because the Fire Service should lobby government to reduce the cuts, not ask the public to pay.
236	Government should fund direct
241	Already pay enough. Cuts shouldn't happen.
251	Government should cut funding!
252	Government should cut funding!
253	Should stay the same

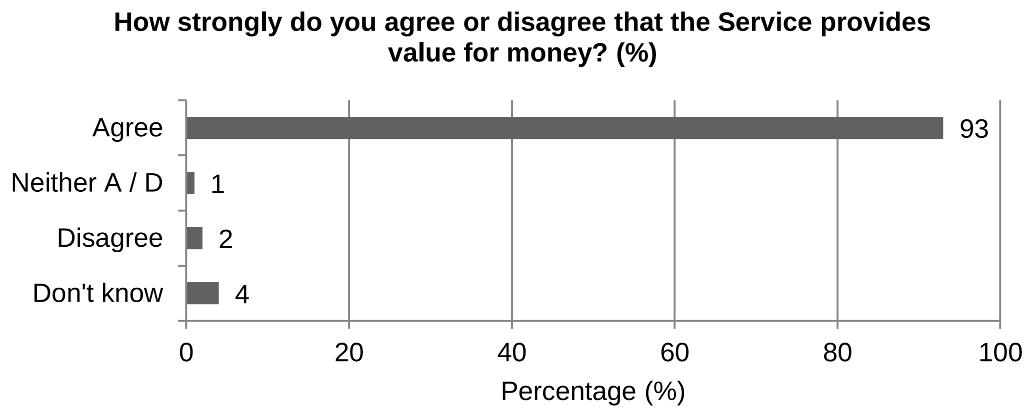
Note: Some surveys were reflective of the views of more than one person (for example, husbands and wives). Their responses were taken as more than one response, meaning that some of the comments in the list above appear to be duplicates.

Question 2a: How strongly do you agree or disagree that the Service provides value for money?

2.12 93% of respondents to this question, 232 people, agreed that the Service provides value for money, while three said that they ‘neither agreed nor disagreed’ and four people disagreed. Ten people said that they didn’t know.

2.13 93% is lower than the 99% agreement achieved in the 2015 survey, but is the same as the result achieved in the 2014 survey.

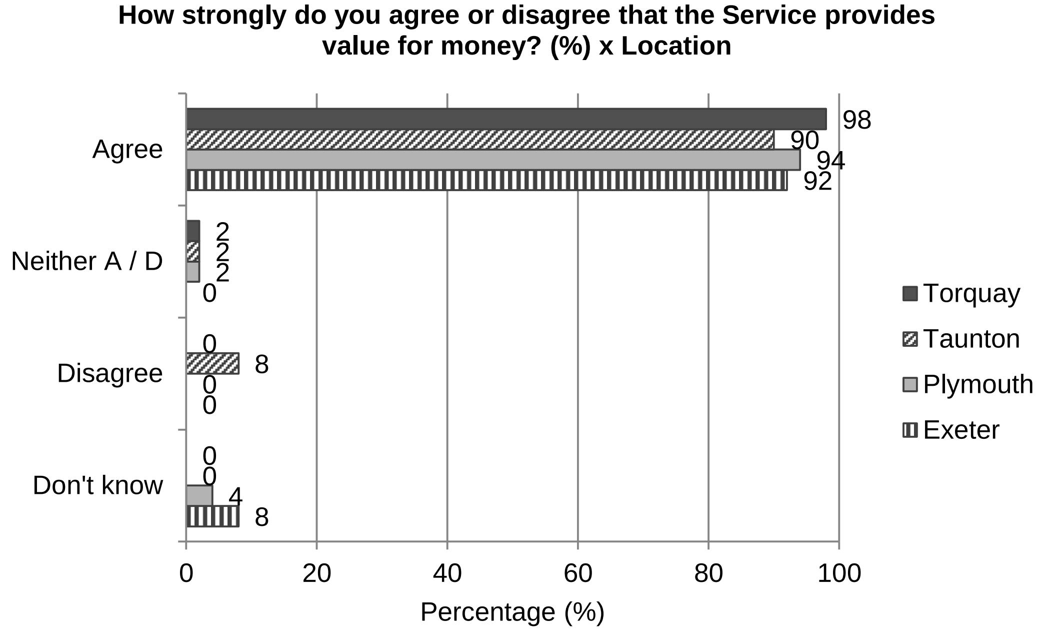
Chart 4: Results of Question 2a



Count (unweighted): 249

2.14 Broken down by location, the highest levels of agreement came from Torquay and most negative responses were taken in Taunton.

Chart 5: Results of Question 2a by location



Count (unweighted): 249 (Torquay: 55 Taunton: 52 Plymouth: 47 Exeter: 95)

2.15 Those who did not agree that the Service provides value for money, who answered either 'Disagree' or 'Don't know', were asked an additional question:

Question 2b: Why do you think that the Service does not provide value for money?

2.16 The responses in Table 3 below were given in response to the above question.

Table 3: Explanations for disagreement with Question 2b

Ref	Comments
38	I genuinely don't know how you spend the money - of course you provide real "value" because of the service you provide. Therefore if you need me to know then I need more info.
90	2a) How does this compare?
125	Don't have all the data to answer.
139	Have not used service
215	Never had to use the Fire Service. £46 per year is a lot for something never had to use. May feel differently if I had used it.
231	Should remain just Somerset fire brigade

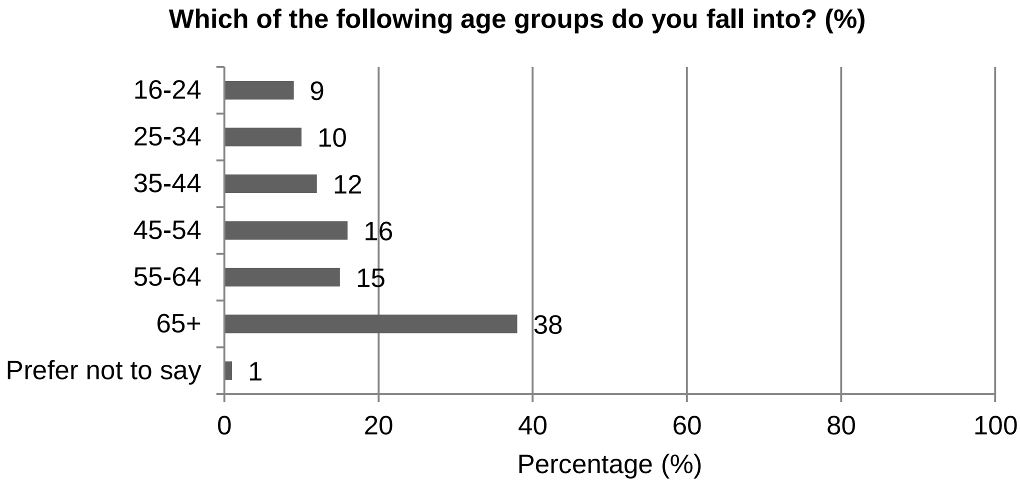
Ref	Comments
248	Do more for the same budget. Take on greater responsibility I.e. Ambulance

Note: Respondent 90 answered 'Agree' to Question 2a.

3.0 DEMOGRAPHIC RESULTS

3.1 The following charts show the demographics of respondents to the surveys:

Chart 6: The age of respondents

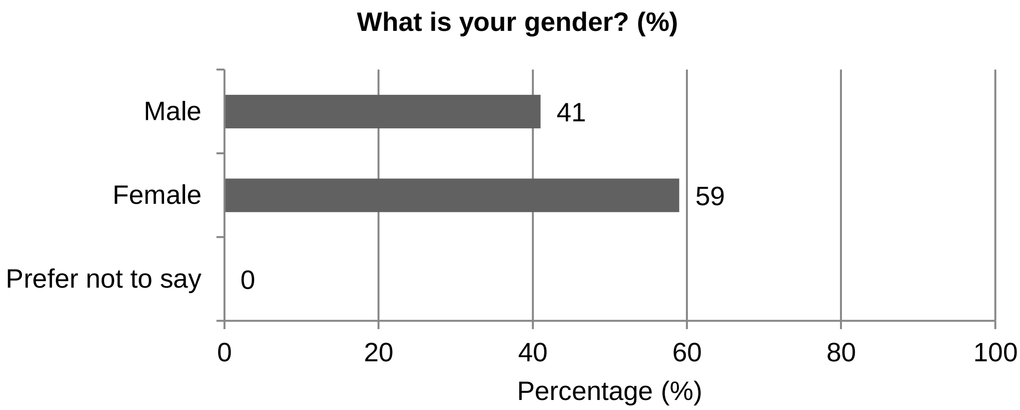


Count (unweighted): 251

3.2 The largest group of respondent were aged 65 or more, though responses were also given by those in other age groups as well. This result will, in part, have been the result of the method employed: face to face surveys conducted on weekdays between 10.00 and 15.00.

3.3 The highest proportion of respondents in the 65+ category were from Taunton, where they made up 60%, in the other locations the average was 33%, with higher levels in the younger groups.

Chart 6: The gender of respondents

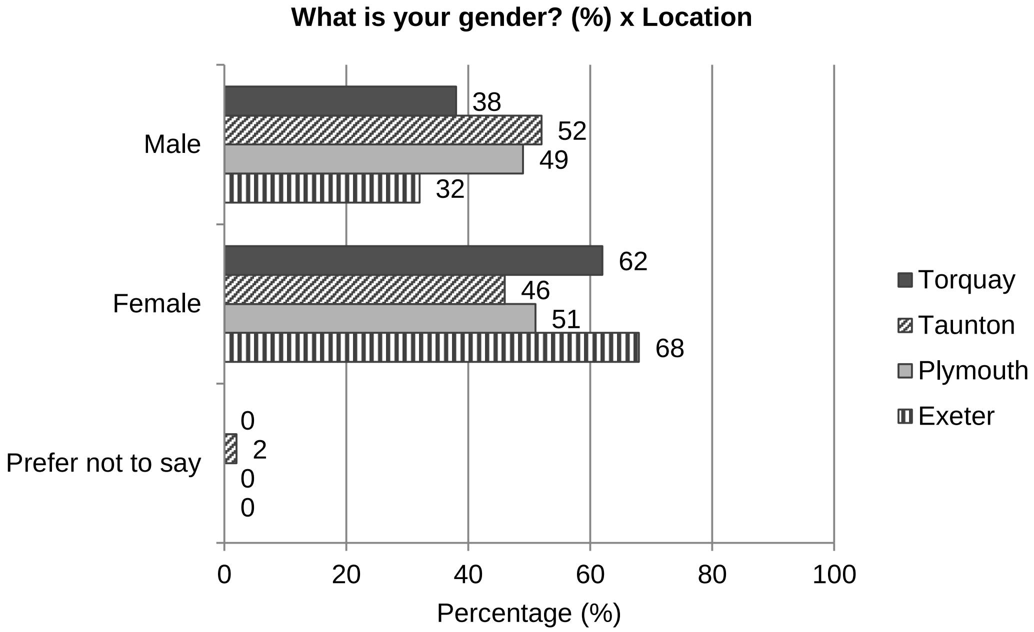


Count (unweighted): 250

3.4 59% of respondents were female and the remainder were male. There were no transgender respondents in 2016.

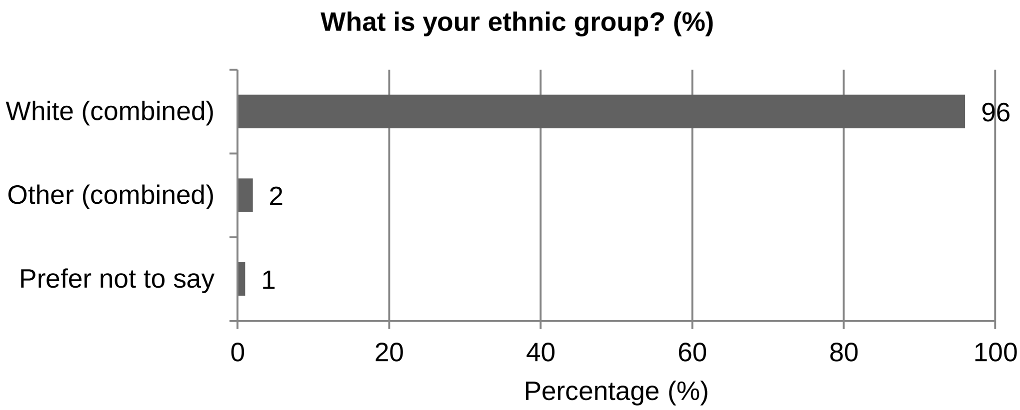
3.5 Broken down by location, below, it is possible to see that while a similar split was achieved in Taunton and Plymouth, far higher proportions of female respondents gave their opinions in Torquay and Exeter.

Chart 7: The gender of respondents by location



Count (unweighted): 250 (Torquay: 55 Taunton: 52 Plymouth: 49 Exeter: 94)

Chart 8: The ethnicity of respondents



Count (unweighted): 250

3.6 The majority of respondents were ‘White - English / Welsh / Scottish / N. Irish / British’. Though responses were also received from the following groups:

- White - Gypsy or Irish Traveller (included in White (combined))
- Asian / Asian British - Indian

- Black / African / Caribbean / Black British - African
- Mixed / multiple ethnic group - White and Asian
- Other ethnic group - Other ethnic group / group not listed (Not specified by respondent).

3.7 96% ‘White’ compares with an average across Devon and Somerset of 98%. Respondents in Plymouth and Exeter were 98% ‘White’, despite 96% and 93% ‘White’ populations respectively, while respondents in Taunton were 94% ‘White’ from a 97% ‘White’ population.

4.0 CONCLUSION

4.1 The results of the consultation indicate that members of the public feel it would be reasonable for the Authority to consider increasing its precept for 2016/17. 76% of those who agreed that it would be reasonable to consider an increase in the Council Tax precept were in favour of a 2% increase.

4.2 93% of public respondents believed that, at around £46 per head of the population per year, the Service provides value for money.

REPORT REFERENCE NO.	**RC/16/4**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**10 FEBRUARY 2016**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2015-2016 – QUARTER 3**
LEAD OFFICER	**Treasurer to the Authority**
RECOMMENDATIONS	***(a) That it be recommended to the Authority that a transfer be made to Earmarked Reserves of £1.5m for future funding of Capital Expenditure, as outlined in paragraph 10.3 of this report.*** ***(b) That subject to (a) above, the monitoring position in relation to projected spending against the 2015-2016 revenue and capital budgets be noted;*** ***(c) That the performance against the 2015-2016 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the third quarter performance (to December 2015) against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2015-16 revenue budget with explanations of the major variations. It is forecast that after a transfer to Earmarked Reserves of £1.5m spending will be £0.486m less than budget. This saving is largely attributable to the ongoing crewing changes as a result of the last Corporate Plan together with a strategy to hold vacancies when staff leave the organisation and a commitment to find in-year budget savings wherever possible.
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 2015-2016.
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 2015. As well as providing projections of spending against the 2015-16 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 2015-2016

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 3	Previous Quarter	Quarter 3 %	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£74.710m	£74.225m	£74.163m	(0.65%)	(0.73%)
2	General Reserve Balance as %age of total budget (minimum)	5.00%	7.06%	7.06%	(2.06)bp*	(2.06)bp*
	Capital Targets					
3	Spending within agreed capital budget (*revised*)	£8.178m	£7.454m	£7.933m	(8.85%)	(3.00%)
4	External Borrowing within Prudential Indicator limit (*revised)*	£29.477m	£25.817m	£25.817m	12.42%	12.42%
5	Debt Ratio (debt charges over total revenue budget)	3.76%	3.76%	3.76%	(0.00)bp*	(0.00)bp*

**bp = base points*

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

- **SECTION A** – Revenue Budget 2015-16.
- **SECTION B** – Capital Budget and Prudential Indicators 2015-16.
- **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 2015-2016

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 £74.225m compared with an agreed budget figure of £74.710m, representing a saving of £0.486m, equivalent to 0.65% of the total budget. It should be noted that this forecast is net of a proposed budget virement of £1.5m as outlined in paragraph 10.3 of this report and indicative requests for year-end transfers to Earmarked Reserves of £0.8m as outlined in paragraph 9.4.

TABLE 2 – REVENUE MONITORING STATEMENT 2015-16

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2015/16

Line No		2015/16 Budget £000 (1)	Year To Date Budget £000 (2)	Spending to Month 9 £000 (3)	Projected Outturn £000 (4)	Projected Variance over/ (under) £000 (5)
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	27,965	21,217	20,846	27,869	(96)
2	Retained firefighters	11,938	8,788	8,398	11,816	(122)
3	Control room staff	1,647	1,227	1,206	1,615	(32)
4	Non uniformed staff	9,625	7,472	7,274	9,560	(65)
5	Training expenses	1,112	774	676	1,055	(58)
6	Fire Service Pensions recharge	2,787	2,398	2,445	2,752	(35)
		55,074	**41,877**	**40,845**	**54,666**	**(407)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,308	981	1,012	1,295	(13)
8	Energy costs	630	425	424	581	(49)
9	Cleaning costs	445	334	372	462	17
10	Rent and rates	1,661	1,454	1,462	1,667	6
		4,044	**3,193**	**3,270**	**4,005**	**(39)**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	607	455	338	525	(82)
12	Running costs and insurances	1,344	1,075	1,304	1,311	(33)
13	Travel and subsistence	1,435	1,058	875	1,430	(5)
		3,386	**2,588**	**2,517**	**3,266**	**(120)**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,465	2,050	1,336	2,388	(77)
16	Hydrants-installation and maintenance	128	96	143	180	52
17	Communications	2,114	1,586	1,694	1,939	(175)
18	Uniforms	610	458	307	546	(64)
19	Catering	220	165	122	173	(47)
20	External Fees and Services	115	86	72	87	(28)
21	Partnerships & regional collaborative projects	187	140	75	155	(32)
		5,840	**4,581**	**3,749**	**5,469**	**(371)**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	380	300	229	350	(30)
23	Advertising	35	26	11	30	(5)
24	Insurances	341	331	427	314	(27)
		756	**657**	**666**	**694**	**(62)**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	568	405	516	637	69
		568	**405**	**516**	**637**	**69**
	CAPITAL FINANCING COSTS					
26	Capital charges	3,723	1,360	1,144	3,723	0
27	Revenue Contribution to Capital spending	2,133	-	-	1,901	(232)
		5,856	**1,360**	**1,144**	**5,624**	**(232)**
28	**TOTAL SPENDING**	**75,523**	**54,662**	**52,708**	**74,360**	**(1,162)**
	INCOME					
29	Treasury management investment income	(117)	(88)	(91)	(184)	(67)
30	Grants and Reimbursements	(3,219)	(2,441)	(2,313)	(3,147)	72
31	Other income	(998)	(749)	(633)	(1,172)	(174)
32	Internal Recharges	(30)	(23)	(14)	(24)	6
33	**TOTAL INCOME**	**(4,363)**	**(3,299)**	**(3,051)**	**(4,526)**	**(163)**
34	**NET SPENDING**	**71,160**	**51,363**	**49,657**	**69,834**	**(1,325)**
	TRANSFERS TO EARMARKED RESERVES					
35	Transfer to Earmarked Reserve	3,551	1,212	2,051	4,390	840
		3,551	**1,212**	**2,051**	**4,390**	840
38	**NET SPENDING**	**74,710**	**52,575**	**51,708**	**74,225**	**(486)**

2.2 These forecasts are based upon the spending position at the end of December 2015, 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.

2.3 This projection for an underspend of £0.486m, net of a proposed £1.5m transfer to reserves, is largely attributable to savings on staffing costs primarily as a result of in year leavers and retirees not being replaced per the Corporate Plan implementation. Members will recall that when fully implemented these proposals will deliver on-going savings of £6.8m, whilst recognising that this full saving would take a number of years dependent on the natural turnover of staff.

2.4 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. Elsewhere on the committee agenda is the Revenue budget report 2016-17 where managers have identified a number of permanent savings to non-pay budgets.

2.5 Explanations of the more significant variations from budget (over £50k variance) are explained below in paragraphs 3 to 8.

3. <u>EMPLOYEE COSTS</u>

Wholetime Staff

3.1 At this stage it is projected that spending on wholetime pay costs will be £96k less than budget largely as a result of more staff retirements and leavers during the year than had been budgeted, thereby reducing staffing levels towards those required post Corporate Plan crewing changes. This projection includes the impact of the agreed 1% pay award from July 2015.

Retained Pay Costs

3.2 At this stage in the financial year spending is forecast to be under budget by £0.122m. 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. However, it should be emphasised that, by its very nature, retained pay costs can be subject to significant variations e.g. volatility to spending caused from spate weather conditions.

Non Uniformed Pay

3.3 It is forecast that savings of £65k will be achieved against non-uniformed pay costs primarily as a result of staffing vacancies and management action to challenge as to whether vacancies are to be filled.

Training Expenses

3.4 Assessment and Development courses for middle managers have been suspended whilst organisational development is reviewed, resulting in a saving to training expenses of £58k.

4. **TRANSPORT RELATED COSTS**

Repair and Maintenance

4.1 There are forecast savings of £82k on Transport Repair and Maintenance due to a significant reduction to repairs for both fire appliances and light vehicles.

5. **SUPPLIES AND SERVICES**

Equipment & Furniture

5.1 On this budget line, a saving of £77k is anticipated. This is largely because fewer items of operational equipment are required because the Service is employing fewer staff.

Hydrants Installation and Maintenance

5.2 Hydrants Installation and Maintenance is forecast to be £52k overspent for the year. This variance is due to a backlog of maintenance work with South West Water, slipped from previous years, which has now been committed to in this financial year.

Communications

5.3 On this budget line, £70k of the forecast saving is on ICT equipment: the Airwave contract for Emergency Services communications and navigation equipment in vehicles. A further £105k in year underspend is attributable to the externally funded National Procurement Project which will be subject to an Earmarked reserve request at year end.

Uniforms

5.4 In year savings of £64k against a budget of £610k are expected, due to fewer staff.

6. **PAYMENTS TO OTHER AUTHORITIES**

Support Services Contracts

6.1 Forecast expenditure of £0.637m against budget of £0.568m, an overspend of £69k, is due to an increase in payments to the third party Occupational Health Service and additional costs to the Pensions Administrators associated with updating their systems to accommodate the introduction of the Modified Firefighters Pension Scheme.

7. **CAPITAL FINANCING COSTS**

Revenue Contribution to Capital Spending

7.1 Due to forecast slippage on the Capital programme, not all funds allocated as revenue contribution to Capital will be utilised in year, the forecast underspend of £232k will be subject to an Earmarked Reserve request at year end.

8. **INCOME**

Treasury Management Income

8.1 Due to better than forecast cash balances resulting from revenue underspend and capital slippage and stronger investments yields, treasury management income is forecast to be £67k better than budgeted.

Grants & Reimbursements

8.2 It is anticipated that there will be a £72k shortfall against a budget of £3.219m due to a £40k grant reduction (partially offset by lower contract expenditure) from the Department for Communities and Local Government associated with the Airwave communications contract, and fewer courses being run for Job Centre Plus (again offset by savings from expenditure lines such as non-uniformed advocate pay).

Other Income

8.3 A forecast surplus of £174k on the Other Income line is due to £101k income above budget from Red1 contribution (will be transferred to Capital reserve, subject to member approval) along with additional funding for cadets courses and reimbursement for use of our sites by the Police.

9. RESERVES AND PROVISIONS

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

Reserves

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

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

Provisions

9.3 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.

9.4 A summary of predicted balances on Reserves and Provisions is shown in Table 3 overleaf. These figures include in-year transfers to/from the revenue budget in the current financial year and a forecast for Earmarked Reserve items which are likely to be requested at the end of the financial year, which are summarised for information only below (these will be subject to a formal reserve request at year end):

Item	**Earmarked reserve**	**Anticipated request at year end £'000**
Surplus Red 1 Income	Capital reserve	101
National Procurement Grant under spend	Grant carry forwards	307
Revenue Contribution to Capital Underspend	Capital reserve	232
Performance Information Management System	Budget carry forward	200
		840

TABLE 3 – FORECAST RESERVES AND PROVISION BALANCES 31 MARCH 2016

RESERVES AND PROVISIONS							
RESERVES	**Balance as at 1 April 2015 £000**	**Approved Transfers £000**	**Proposed Transfers £000**	**Spending to P9 £000**	**Projected Spend 2015-16 £000**	**Proposed Balance as at 31 March 2016 £000**	
Earmarked reserves							
Grants unapplied from previous years	1,707	-	307	643	948	1,066	
Change & improvement programme	938	-	-	121	554	384	
Budget Carry Forwards	727	-	200	46	130	797	
Commercial Services	192	-	-	-	-	192	
Direct Funding to Capital	7,175	1,500	1,833	-	176	10,332	
Comprehensive Spending Review*	4,955	-	-	-	-	4,955	
Community Safety Investment	215	-	-	36	36	179	
PPE & Uniform Refresh	996	-	-	-	-	996	
Pension Liability reserve	1,525	-	-	-	-	1,525	
NNDR Smoothing Reserve	62	551		-	-	613	
Total earmarked reserves	**18,492**	**2,051**	**2,340**	**847**	**1,845**	**21,038**	
General reserve							
General fund balance	**5,271**		**-**	**-**		**5,271**	
Percentage of general reserve compared to net budget							7.06%
TOTAL RESERVE BALANCES	**23,763**					**26,309**	
PROVISIONS							
Fire fighters pension schemes	784		-	-	75	709	
PFI Equalisation	295		-	-	-	295	
TOTAL PROVISIONS	**1,079**		**-**	**-**	**75**	**1,004**	

***** *The CSR Reserve has been established to provide additional financial contingency during the period of austerity, which is anticipated until at least 2019-20. Given the ongoing need to implement staff reductions arising from the changes within the Corporate Plan, this Reserve will be utilised over the period of austerity measures to fund the necessary changes to staffing models, including voluntary and/or compulsory redundancy costs, where required. It also provides further contingency in the event that government grant reductions are larger than included in the Authority's Medium Term Financial Plan.*

10. SUMMARY OF REVENUE SPENDING

10.1 At this stage it is forecast that spending will be £0.486m (net of transfers to earmarked reserve) less than the agreed budget figure for 2015-16, which aligns with the strategy adopted to deliver in-year savings in order to enhance Reserve balances and prepare the Authority for future austerity measures.

10.2 In line with the published strategy to reduce future debt exposure and the resulting impact on debt charges, Members of the Resources Committee are requested to recommend to the Authority that a further amount of £1.5m be transferred to an Earmarked Reserve to support future Capital Expenditure, with associated budget virements as outlined in paragraph 10.3.

10.3 Table 4 below provides details of the proposed transfers between subjective budget headings to fund the proposed transfer of £1.5m to the earmarked reserve to be used to fund future capital spending. Financial Regulations require 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).The budget figures in Table 2 include the impact of these virements on the basis that Member approval is granted.

TABLE 4 – PROPOSED BUDGET VIREMENTS

Line (Table 2)	Budget	Requested Budget Virement £m
1	Wholetime Uniformed Staff	(0.350)
2	Retained Firefighters	(0.200)
3	Non Uniformed staff	(0.350)
6	Fire Service Pension Recharge	(0.100)
13	Travel & Subsistence	(0.100)
14	Equipment & Furniture	(0.300)
26	Capital Charges	(0.100)
35	Transfer to Earmarked Reserve	1.500

11. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2015-16

Monitoring of Capital Spending in 2015-16

11.1 Table 5 overleaf provides a summary of forecast spending against the 2015-16 capital programme. Latest projection is for capital spending to be £7.454m (£7.933m in Q2) against a revised programme of £8.178m.

TABLE 5 – CAPITAL OUTTURN 2015-16

PROJECT	2015/16 £000 Revised Budget	2015/16 £000 Forecast Outturn	2015/16 £000 Forecast Slippage	2015/16 £000 Over/ (under) spend
Estate Development				
Major Projects - Training Facility at Exeter Airport	421	421	0	0
Minor improvements & structural maintenance	1,620	1,015	(398)	(207)
Estates Sub Total	**2,041**	**1,436**	**(398)**	**(207)**
Fleet & Equipment				
Appliance replacement	4,502	4,502	0	0
Community Fire Safety	0	0	0	0
Specialist Operational Vehicles	344	219	(125)	0
Equipment	953	953	0	0
ICT Department	245	251	0	6
Water Rescue Boats	93	93	0	0
Fleet & Equipment Sub Total	**6,137**	**6,018**	**(125)**	**6**
Overall Capital Totals	**8,178**	**7,454**	**(523)**	**(201)**
Programme funding				
Earmarked Reserves:	1,047	463	(383)	(201)
Revenue funds:	2,134	1,994	(140)	0
Borrowing	4,997	4,997	0	0
Total Funding	**8,178**	**7,454**	**(523)**	**(201)**

Slippage in 2015-16

11.2 As is illustrated in Table 5, it is anticipated that there will be slippage against the 2015-16 programme. At this stage, savings of £201k are being declared against the Capital Programme for projects which are not going ahead in 2015/16. Additionally there is forecast slippage of £398k due to some delays in a number of Estates projects which are on hold pending revisions to the Property Strategy and £125k in the fleet programme for delivery of a specialist vehicle. 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.

Prudential Indicators (including Treasury Management)

11.3 Total external borrowing with the Public Works Loan Board (PWLB) as at 31 December 2015 stands at £25.864m (from £25.880m in Q2), and forecast to reduce to £25.817m as at 31 March 2016. This level of borrowing is well within the Authorised Limit for external debt of £30.953m (the absolute maximum the Authority has agreed as affordable). No further external borrowing is planned in this financial year.

11.4 Investment returns in the quarter yielded an average return of 0.49% which outperforms the LIBID 3 Month return (industry benchmark) of 0.45%. It is forecast that investment returns from short-term deposits is anticipated to exceed the budgeted figure of £0.117m by 31 March 2016.

11.5 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2015-2016, which illustrates that there was no breach of any of these indicators.

12. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

12.1 Total debtor invoices outstanding as at Quarter 3 were £86,306 (previous quarter £288,769). Table 6 below provides a summary of all debt outstanding as at 30 December.

12.2 Of this figure an amount of £14,326 (£10,518 as at 30 September) was due from debtors relating to invoices that are more than 85 days old, equating to 16.60% (3.64% as at 30 December) of the total debt outstanding. Table 7 overleaf provides an analysis of all debt in excess of 85 days.

TABLE 6 – OUTSTANDING DEBT AS AT 30 DECEMBER 2015

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	18,126	21.00%
1 to 28 days overdue	152	0.18%
29-56 days overdue	53,580	62.08%
57-84 days overdue	123	0.14%
Over 85 days overdue	14,326	16.60%
Total Debt Outstanding as at 30 December 2015	**86,306**	**100.00%**

TABLE 7 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	**Total Value**	**Action Taken**
Individual Debts less than £1,000	5	£756	Each debt being pursued by the Risk and Insurance Officer.
South West Ambulance Trust	2	£13,570	Monies due in relation to station site sharing costs. Finance Team currently working with SWAST to secure immediate payment.

Payment of Supplier Invoices within 30 days

12.3 There is a statutory requirement for the Authority to pay undisputed invoices within 30 days. Actual performance to the end of December 2015 was 90.49% compared to the previous reported figure of 89.94% as at 30 September 2015. Officers recognise the importance of this measure to ensure that suppliers are being paid promptly. Whilst the drop in performance is, in the main, attributable to significant staffing issues within the Finance Team, measures are being put in place to improve performance including analysis of query resolution times.

KEVIN WOODWARD
Treasurer to the Authority

APPENDIX A TO REPORT RC/16/4

PRUDENTIAL INDICATORS 2015-2016

Prudential Indicators and Treasury Management Indicators	Forecast Outturn £m	Target £m	Variance (favourable) /adverse
Capital Expenditure	**7.454**	**8.178**	**(£0.724m)**
External Borrowing vs Capital Financing Requirement (CFR) - Total - Borrowing - Other long term liabilities	**27.261** 25.817 1.444	**27.261m** 25.817 1.444	**£0.000m**
External borrowing vs Authorised limit for external debt - Total - Borrowing - Other long term liabilities	**27.261** 25.817 1.444	**30.993** 29.477 1.516	**(£3.732m)**
Debt Ratio (debt charges as a %age of total revenue budget	**3.76%**	**3.76%**	**(0.0)bp**
Cost of Borrowing – Total - Interest on existing debt as at 31-3-16 - Interest on proposed new debt in 2015-16	**1.096** 1.096 0.000	**1.096** 1.096 0.000	**(£0.000m)**
Investment Income – full year	**0.184**	**0.116**	**(£0.068m)**
	Actual (31 Dec 2015) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.49%**	**0.45%**	**(0.04)bp**

Prudential Indicators and Treasury Management Indicators	Forecast (30 March 2016) %	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	0.49%	30.00%	0.00%	(29.51%)
12 months to 2 years	0.36%	30.00%	0.00%	(29.14%)
2 years to 5 years	1.08%	50.00%	0.00%	(48.92%)
5 years to 10 years	8.22%	75.00%	0.00%	(66.78%)
10 years and above - 10 years to 20 years - 20 years to 30 years - 30 years to 40 years - 40 years to 50 years	**89.86%** 17.55% 14.26% 21.97% 36.07%	**100.00%**	**50.00%**	**(10.14%)**

REPORT REFERENCE NO.	**RC/16/5**
MEETING	**RESOURCES COMMITTEE (BUDGET)**
DATE OF MEETING	**10 FEBRUARY 2016**
SUBJECT OF REPORT	**MAY 2016 MEETING – PROPOSED CHANGE IN DATE**
LEAD OFFICER	**Clerk to the Authority**
RECOMMENDATIONS	***that a change in date for the Resources Committee May 2016 meeting, from Wednesday 18 May to 10.00hours, Tuesday 17 May, be approved.***
EXECUTIVE SUMMARY	The date currently set for the May 2016 meeting of the Resources Committee (Wednesday 18 May 2016) clashes with Somerset County Council's Annual Meeting. The May Resources Committee meeting usually considers the draft outturn position for the preceding (2015-16) financial year. Given the clash, it is proposed that the date for the Resources Committee be moved to **10.00hours on Tuesday 17 May 2016**.
RESOURCE IMPLICATIONS	None.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	Not applicable
APPENDICES	None.
LIST OF BACKGROUND PAPERS	None.

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