

<b>REPORT REFERENCE NO.</b>	<b>RC/17/2</b>
<b>MEETING</b>	<b>RESOURCES COMMITTEE</b>
<b>DATE OF MEETING</b>	<b>8 FEBRUARY 2017</b>
<b>SUBJECT OF REPORT</b>	<b>2017-18 REVENUE BUDGET AND COUNCIL TAX LEVELS</b>
<b>LEAD OFFICER</b>	<b>Treasurer and Chief Fire Officer</b>
<b>RECOMMENDATIONS</b>	<i><b>That the Committee consider this report with a view to recommending to the budget meeting of the Devon and Somerset Fire and Rescue Authority on 17 February 2017, an appropriate level of revenue budget and council tax for 2017-18.</b></i>
<b>EXECUTIVE SUMMARY</b>	<p>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.</p> <p>The Secretary of State has announced that the council tax threshold to be applied in 2017-18 that would trigger a requirement to hold a council tax referendum is to be 2.0%. This report considers three potential options A to C below for council tax in 2017-18:</p> <p style="padding-left: 40px;"><b>OPTION A – Freeze council tax at 2016-17 level (£79.98 for a Band D Property).</b></p> <p style="padding-left: 40px;"><b>OPTION B – Increase council tax by 1.0% above 2016-17 (increase of £0.80 to £80.78 for Band D Property)</b></p> <p style="padding-left: 40px;"><b>OPTION C – Increase council tax by 1.99% above 2016-17 (increase of £1.59 to £81.57 for Band D Property).</b></p> <p>The Committee is asked to consider the implications associated with each option, with a view to making a recommendation of one option to the full Authority budget meeting on 17 February 2017.</p> <p>As included in the Authority’s published Efficiency Plan, there is a requirement to use an element of the Comprehensive Spending Review (CSR) Reserve to balance the 2017/18 revenue budget.</p>
<b>RESOURCE IMPLICATIONS</b>	As indicated in the report.
<b>EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)</b>	Not applicable.
<b>APPENDICES</b>	<p>A. Core Net Revenue Budget Requirement 2017-18.</p> <p>B. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances.</p> <p>C. DSFRA response to the Department of Communities and Local Government consultation document “Local Government Finance Settlement – Technical Consultation Paper”.</p>

	D. Revenue budget compared against published efficiency plan. E. BMG Report on Precept Consultation for 2017-18 Revenue Budget
<b>LIST OF BACKGROUND PAPERS</b>	Nil.

## 1. **INTRODUCTION**

- 1.1 It is a legislative requirement that the Devon & Somerset Fire & Rescue Authority (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 2017-18. 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 15 December 2016, the Department for Communities and Local Government (DCLG) announced as part of the provisional Local Government Settlement the council tax limit to be applied in 2017-18. This is to be 2.0% which, if exceeded, would trigger the need to hold a referendum.
- 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 three options, A to C below, of which the maximum proposed increase is 1.99%:
- **OPTION A** – Freeze council tax at 2016-17 level (£79.98 for a Band D Property).
  - **OPTION B** – Increase council tax by 1.00% above 2016-17 (£80.78).
  - **OPTION C** – Increase council tax by 1.99% above 2016-17 (£81.57).
- 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 at its meeting to be held on 17 February 2017.
- 1.6 In recent years, the Service has created an Earmarked Reserve – the Comprehensive Spending Review (CSR) reserve - to assist with balancing future revenue budgets during the period of austerity. The current balance on this reserve is £4.9m. It is anticipated that there will be a requirement to utilise some of this reserve in order to balance the budget for 2017/18. The amount to be utilised will be dependent on which of the potential options A to C is agreed.

## 2. **LOCAL GOVERNMENT FINANCE SETTLEMENT 2017-18**

- 2.1 The provisional Local Government Finance Settlement was announced on 15 December 2016, which provided local authorities with individual settlement funding assessment figures for 2017-18, and confirmed figures for 2018-19 and 2019-20 as offered by the four-year settlement which has been accepted by the Authority.
- 2.2 Table 1 overleaf provides details of the Settlement Funding Assessment (SFA) for this Authority which results in a reduction in 2017-18 of 11.1% over 2016-17 and an overall reduction of 24.6% by 2019-20:

<b>TABLE 1 – SETTLEMENT FUNDING ASSESSMENT (SFA)</b>			
	<b>SFA</b>	<b>SFA Reduction</b>	
	<b>£m</b>	<b>£m</b>	<b>%</b>
2015-16	29.413		
2016-17	26.873	(2.540)	-8.6%
2017-18	23.883	(2.990)	-11.1%
2018-19	22.650	(1.233)	-5.2%
2019-20	22.188	(0.462)	-2.0%
<b>Reduction over 2015-16</b>		<b>(7.225)</b>	<b>-24.6%</b>

- 2.3 With regard to the accepted 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. A confirmation letter has been received by the Authority on 14 December 2016 from the Minister of State for Policing and Fire Service confirming the settlements until 2019-20.
- 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 When compared to other fire and rescue authorities, this Authority has received the 7<sup>th</sup> worst settlement with a 24.6% reduction against an average of 21% (ranging from 15.2% to 28.6%). In terms Core Spending Power comparisons (which is total funding including assumed council tax precept increases and the Rural Services Delivery Grant) the government is anticipating an increase of 0.4% of our spending power by 2019-20, the 9<sup>th</sup> best settlement against an average reduction of 0.5% for the sector.
- 2.6 In addition to the settlement figures reported in Table 1 above, the Authority has been awarded a share of a £65m Rural Services Delivery Grant which is only available to the most sparsely populated rural areas. The award is £340k for 2017-18, £261k in 2018-19 and £340k in 2019-20.
- 2.7 Furthermore, the Authority has been awarded a share of £300m transitional grant allocated to local government for the years 2016-17 and 2017-18 and paid only to those authorities suffering the most severe grant reductions in the first two years of the four-year settlement. The allocation for the Authority for 2017-18 is £188k.
- 2.8 These two grants will be paid as a Section 31 grant (which means it is not in base funding) and the total grant of £528k in 2017-18 is therefore included as income within the draft budget proposed in this report.

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

- 3.1 There were 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 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.
- 3.4 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. The Service has asked DCLG to consider an alternative set of principles for fire and rescue authorities (most recent letter to DCLG in October 2016 – copy included at Appendix C to this report) 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 2017-18, the provisional settlement confirms that for fire and rescue authorities, a percentage increase threshold will continue to be applied.
- 3.5 On 15 December 2016, the DCLG announced the referendum threshold to be applied in 2017-18 is 2.0%.

### **4. COUNCIL TAX AND BUDGET REQUIREMENT 2017-18**

#### ***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 2017-18.
- 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 2017-18, this report considers three options A, B and C as below:
- **OPTION A** – Freeze council tax at 2016-17 level (£79.98 for a Band D Property);
  - **OPTION B** – Increase council tax by 1.00% above 2016-17 (£80.78);
  - **OPTION C** – Increase council tax by 1.99% above 2016-17 (£81.57).

- 4.3 The Committee could decide to set any alternative level below 2%. Each 1% increase in council tax represents a £0.80p increase for a Band D property, and is equivalent to a £0.472m variation on the revenue budget. In relation to the referendum option, it is the Treasurer's 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 available for 2017-18. Table 2 below provides a summary of the reduction associated with each option, including additional precept income.

***Please note that at the time of writing this report, the Service is still awaiting figures from some billing authorities relating to the amount of estimated business rates income in 2017-18 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 2017-18**

	OPTION A Council Tax Freeze at £79.98	OPTION B Council Tax Increase of 1.00% to £80.78	OPTION C Council Tax Increase of 1.99% to £81.57
	£m	£m	
<b>TOTAL FUNDING 2016-17</b>	<b>73.977</b>	<b>73.977</b>	<b>73.977</b>
Reduction in Formula Funding	(2.990)	(2.990)	(2.990)
Increase in Retained Business Rates from Business Rate Retention System.	0.187	0.187	0.187
<u>Changes in Council Tax Precept</u>			
- increase in Council Tax Base	0.882	0.882	0.882
- resulting from an increase in Band D Council Tax	-	0.472	0.938
- Decrease in Share of Billing Authorities Council Tax Collection Funds	(0.051)	(0.051)	(0.051)
<b>Net Change in precept income</b>	<b>0.832</b>	<b>1.304</b>	<b>1.770</b>
<b>TOTAL FUNDING AVAILABLE 2017-18</b>	<b>72.006</b>	<b>72.477</b>	<b>72.943</b>
<b>NET REDUCTION IN FUNDING</b>	<b>(1.971)</b>	<b>(1.500)</b>	<b>(1.034)</b>

### ***Council Tax Base***

- 4.5 Whilst the total reduction in government funding of £2.990m was expected and planned for, the Service had not expected to see such a high increase in the council tax base for the area resulting in additional precept income of £0.882m, 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 which reflects increases in the number of properties, e.g. Cranbrook in East Devon. Conversely, in relation to the 2016-17 council tax collection rates by districts, the amount of surplus available to the Authority has decreased by £0.051m.

### **Net Budget Requirement**

- 4.6 Table 3 below provides a summary of the Core Budget Requirement (based upon Option C for illustrative purposes) for 2017-18. A breakdown of the more detailed items included in this draft budget is included in Appendix A of this report.

**TABLE 3 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2017-18**

	£m	%
<b>Approved Net Revenue Budget Requirement 2016-17</b>	<b>73.977</b>	
PLUS Provision for pay and price increases (Pay award assumed 1.0% in 2017 for Firefighters)	0.646	0.87%
MINUS Removal of one off provisions in 2016-17	(0.116)	-0.16%
PLUS Inescapable Commitments	0.851	1.15%
PLUS New Investment	0.070	0.09%
PLUS Changes to income targets	0.177	0.24%
<b>CORE SPENDING REQUIREMENT 2017-18</b>	<b>75.606</b>	
<b>INCREASE IN BUDGET OVER 2016-17 (£m)</b>	<b>1.629</b>	<b>2.20%</b>

### **Budget Savings**

As is indicated in Table 3, the Core Budget Requirement for 2017-18 (which includes provision for pay and inflation, inescapable commitments and new investment) has been assessed as £75.606m. This is more than the amount of funding available under Options A, B or C and therefore budget savings need to be identified in order that a balanced budget can be set. Table 4 below provides an analysis of on-going savings identified to be delivered in 2017-18.

**TABLE 4 – BUDGET SAVINGS 2017-18**

	£m
<b>Budget Management Savings</b> – 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 £0.773m of recurring savings which can be removed from base budget.	(0.773)
<b>Retained Pay</b> – Activity anticipated to reduce as a result of changes to activity levels and asset utilisation on some stations	(0.086)
<b>Operational Staffing</b> – 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. These posts have now been released through natural turnover and the base staffing budget has been realigned with the new establishment, saving £0.950m. Additionally, a middle management restructure was conducted in 2016/17 which has released £0.330m.	(1.280)
<b>Support Staffing</b> – In order to meet financial challenges over the coming years, a strategy has been set to reduce support staff numbers and therefore managers have removed vacancies in year, resulting in a saving of £0.2m	(0.202)
<b>TOTAL BUDGET SAVINGS (£m)</b>	<b>(2.341)</b>

- 4.8 Whilst the Service is confident that savings of £2.341m can be delivered, this still leaves the Authority with a budget shortfall in order that it can set a balanced budget for 2017/18. Based on Option C (increase of 1.99% of Council Tax) this shortfall is £0.321m.

4.9 It should be noted that the Authority has set aside an Earmarked Reserve called ‘CSR Strategy Reserve’ (paragraph 1.6 above also refers) funded prudently from under spends in previous years. The intention of this Reserve is to provide a smoothing mechanism of the impact of grant reductions during the period of austerity. The current balance on this Reserve is £4.9m. Given the shortfall of £0.321m referred to in paragraph 4.8 above, it is proposed as part of this draft budget that an amount of £0.321m is transferred from this Earmarked Reserve to fund the shortfall in the draft Revenue Budget for 2017/18.

4.10 Should the Committee decide to recommend to the Authority an alternative Council Tax Option, then the amount of transfer from the CSR Reserve will need to be increased to £0.786m for Option B (1.0% increase) or £1.259m for Option A (Council Tax freeze).

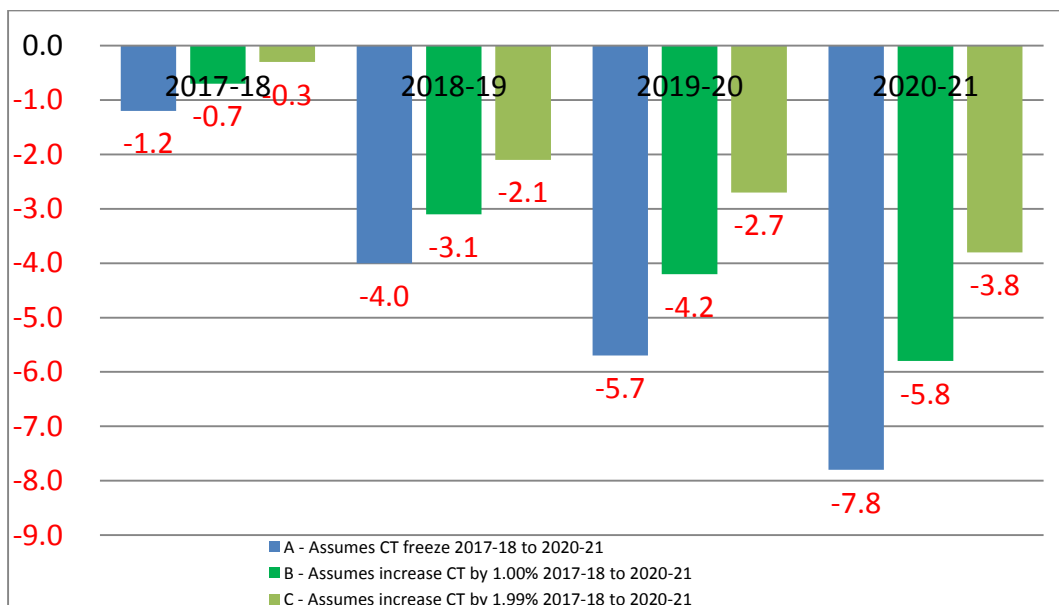
**5. MEDIUM TERM FINANCIAL PLAN**

5.1 Given that indicative grant figures up to 2019-20 have been received, there is now greater certainty of the funding situation over the medium term. This means that the Medium Term Financial Plan (MTFP) needs to be planning for further significant reductions beyond the saving of £2.341m achieved in 2017-18.

5.2 Clearly it is difficult to provide forecasts into future years with absolute certainty, particularly in relation to future pay awards, inflationary increases and changes in pension costs. Key assumptions have therefore had to be made in our forecasts which will inevitably be subject to change. Prudent forecasts of future budgets can, however, be used to refresh the Authority’s MTFP to inform financial planning and provide updated forecasts of the levels of budget reductions required by 2019-20 to balance the budget.

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

**CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE) 2017 TO 2021 (BASE CASE) - £MILLIONS**





5.4 Chart 1 illustrates that further savings will be required beyond 2017-18 to plan for a balanced budget over the next three years to 2020-21. Should the Authority decide to freeze council tax in 2017-18 (Option A) and the following three years then the MTFP forecast that further savings of £7.8m need to be planned for. As is stated earlier in this report each 1% increase in council tax results in additional precept of £0.472m. Should it be agreed to increase council tax by 1.99% in 2017-18 (Option C) and by a further 1.99% (not subject to a decision at this meeting) in each year from 2018-19 to 2020-21 then the saving target by 2020-21 would be reduced from £7.8m to £3.8m.

## 6. **PLANS TO DELIVER SAVINGS 2017-2020**

### ***Our Plan 2017 onwards***

6.1 This budget report proposes a balanced budget for the next financial year 2017-18 including proposals as to how budget savings can be achieved.

6.2 Looking beyond 2017-18 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. The 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).

6.3 On the 30 September 2016, the Authority approved the offer of a 4 year settlement proposed by the Home Office on the condition that it publishes a 4 year Efficiency Plan. This plan was submitted to and agreed by the Home Office and can be found at:

<https://fireauthority.dsfire.gov.uk/documents/g332/Public%20reports%20pack%2030th-Sep-2016%2014.00%20Devon%20Somerset%20Fire%20Rescue%20Authority.pdf?T=10>.

6.4 An analysis of the figures included in the draft 2017-18 revenue budget as per this report, compared to those figures included in the Efficiency Plan can be found in Appendix D.

## 7. **PRECEPT CONSULTATION 2017-18**

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 The issue of a council tax precept consultation in relation to the 2017/18 budget was therefore considered and this was undertaken via telephone surveys of both businesses and the general public.

7.4 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 telephone survey ran from the week beginning Monday 19 December 2016 until Monday 9 January 2017, and was undertaken by BMG Research.

7.6 A summary of the results obtained from businesses and members of the public have been displayed below. The full results of the business and public surveys can be found in a report produced by BMG in Appendix E.

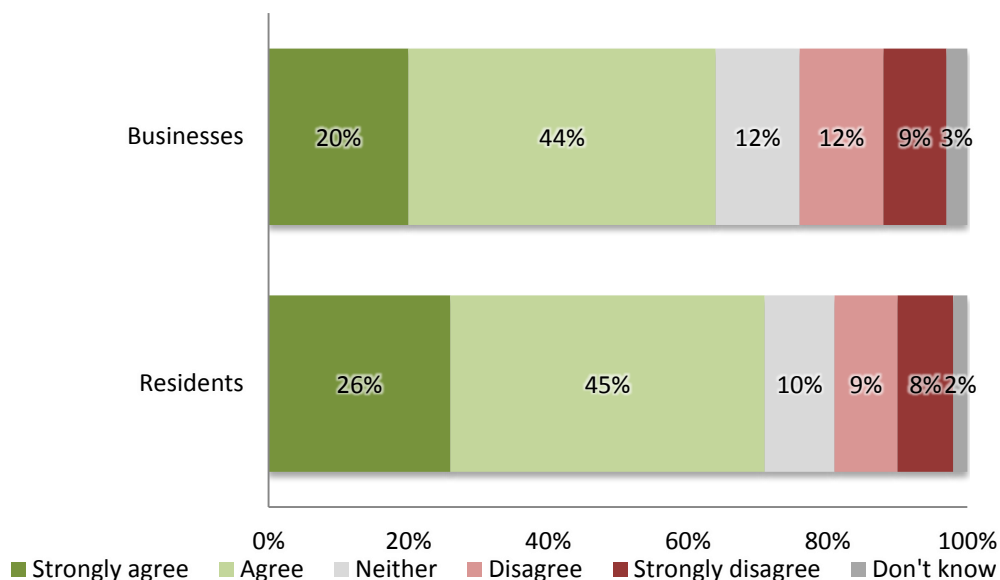
## **RESULTS**

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

7.8 *Question 1: How strongly do you agree or disagree that it is reasonable for the Authority to consider increasing its council tax charge for 2017/18 in order to lessen the impact of the funding cuts?*

The results for Question one, shown in Chart 2, illustrate that the majority of business respondents (64%) agreed that it would be reasonable for the Authority to consider increasing the precept to lessen the impact of funding cuts. Members of the public were slightly more positive with 71% in agreement that it was reasonable for the Authority to consider increasing Council Tax charges.

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

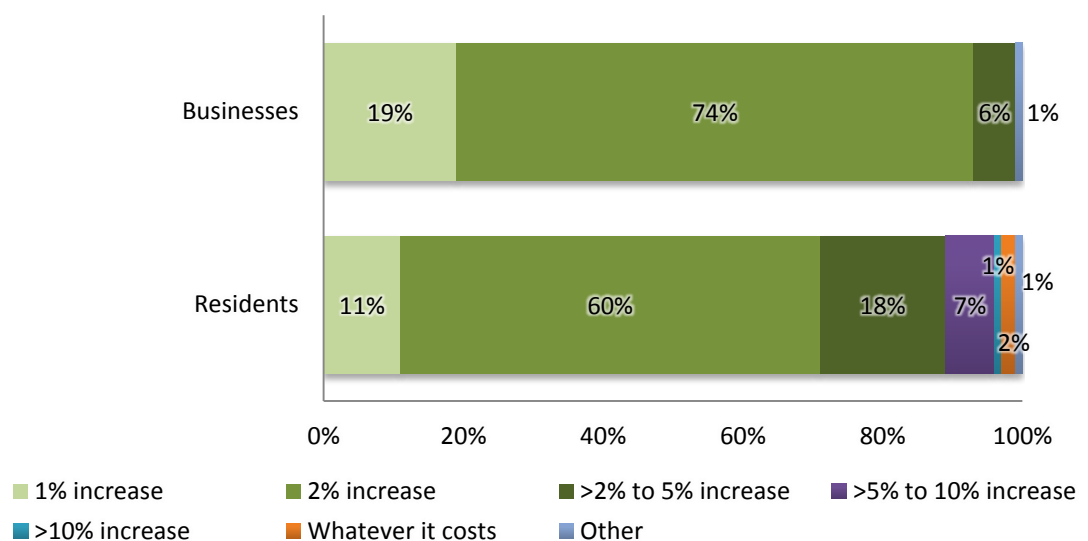


Unweighted sample base: 400 businesses, 401 residents

- 7.9 The 2017 results of the business survey show a slight increase in the level of agreement for the Authority to consider an increase to the precept over the last three years: up from 53% in 2014, 57% in 2015 and 61% in 2016. The results from the survey with members of the public showed a decrease in agreement over previous years of 74% in 2014, 79% in 2015 and 85% in 2016. The decrease could be attributed to the move away from face to face surveys to a telephone survey, where a less personal survey elicits a different response.
- 7.10 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.
- 7.11 Those respondents who disagreed to Question 1 were asked why and their responses recorded. Typical comments received have been included in the BMG report in Appendix E.
- 7.12 Respondents who agreed that the Authority should consider increasing the precept were asked:
- 7.13 *Question 2: What level of increase would you consider is reasonable for the Authority to increase its element of the Council Tax charge by?*

The majority of business respondents (74%) were in favour of a 2% increase to the precept as seen in Chart 3. Similarly, the majority of public respondents (60%) were also in favour of a 2% increase.

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



Unweighted sample base: 255 businesses, 288 residents

- 7.14 There was a slight increase in support from businesses for a 2% increase in Council Tax when compared with the 2016 results of 72% and 2015 of 61%. There was a decrease in support for a 2% increase from the public compared with previous years, from 76% in 2016 and 67% in 2015. However, this is due to the significant increase in those who opted for a '>2% to 5% increase' or a '>5% to 10% increase'.

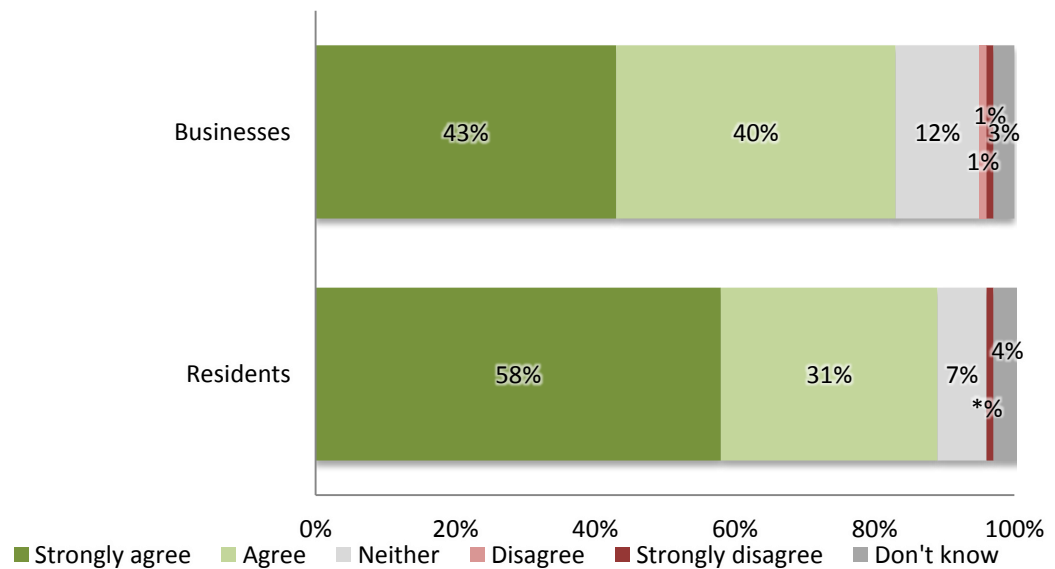
7.15 These results suggest support from businesses and members of the public for the Authority to consider increasing the precept by 2% to minimise the impact of cuts to the government grant.

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

Chart 4 below shows that business respondents agreed that the Service provides value for money. The level of agreement from businesses (83%) was an increase to that recorded in the 2016 survey (79%) and 2015 survey (81%).

7.17 For members of the public, 89% agreed that the Service provides value for money. This result is lower than the 93% agreement recorded in the 2016 survey and 99% recorded in 2015.

Chart 4 – Question 3 How strongly do you agree or disagree that the Service provides value for money?

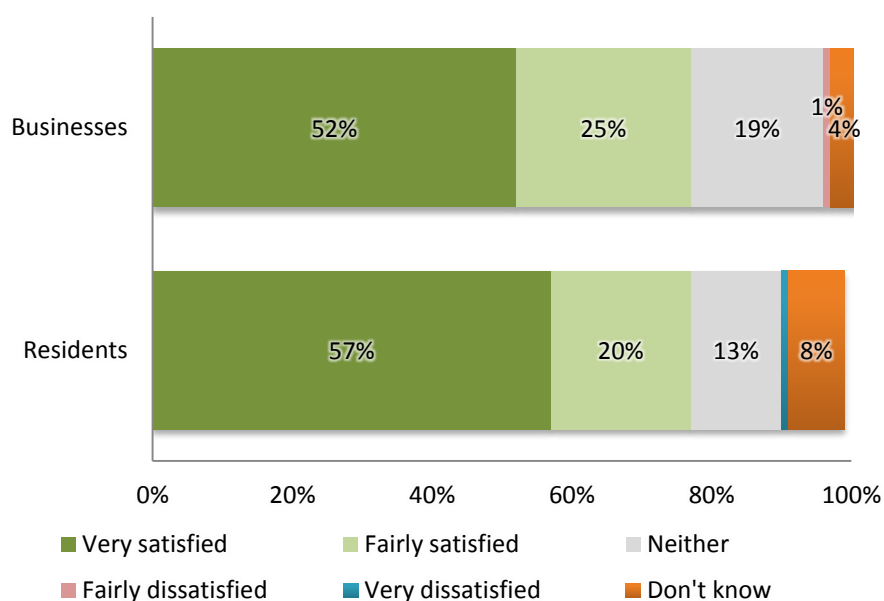


Unweighted sample base: 400 businesses, 401 residents

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

Chart 5 below shows that the majority of respondents were satisfied with the service provided by the Service (77% from businesses and 77% from members of the public). Levels of satisfaction for businesses appear fairly consistent over the last three years with results of 76% satisfaction recorded in 2016, 74% in 2015 and 78% in 2014. In previous years, this question was not included in the face to face survey with members of the public in order to reduce the time taken to complete the survey; therefore no trend analysis is available.

Chart 5: Question 4 results of satisfaction with Service.



Unweighted sample base: 400 businesses, 401 residents

## **CONCLUSION**

- 7.19 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 2017/18. 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 (74% of business respondents and 60% of public respondents who agreed it was reasonable to consider a 2% increase).
- 7.20 Both business respondents and members of the public agreed that the Service provides value for money, at around £43 per head of the population per year, and were satisfied by the service provided by Devon and Somerset.
- 7.21 Compared with the surveys conducted in 2014, 2015 and 2016 there appears to be an increasing sentiment from businesses that the Authority should consider increasing the Council Tax precept. However, there appears to be a decreasing sentiment from members of the public,

## **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 2017-18 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 three potential options A, B and C 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 17 February 2017.

**KEVIN WOODWARD**  
Treasurer

**LEE HOWELL**  
Chief Fire Officer

## APPENDIX A TO REPORT RC/17/2

### DRAFT REVENUE BUDGET REQUIREMENT 2017-18 (BASED UPON OPTION C FOR ILLUSTRATIVE PURPOSES)

	£'000	2017/2018 £000	%
<b>Approved Budget 2016-17</b>		<b>73,977</b>	
<b><u>Provision for pay and prices increase</u></b>			
Uniformed Pay Award (assume 1.0% from July 2016)	424		
Non-uniformed Pay Award (assume 1% from April 2016)	101		
Prices increases (assumed 2% CPI from April 2017)	93		
Pensions inflationary increase (2% from April 2017)	28		
		646	0.9%
<b><u>Removal One-off Provisions for 2016/17 only</u></b>			
Change and Improvement Programme	(116)	(116)	
<b><u>Inescapable Commitments</u></b>			
Support Staff Increments and LGPS contribution rate change	150		
Increase to pension charges for Ill Health and Injury on Duty	261		
Apprenticeship Levy	220		
Cumulative minor budget variances	115		
NNDR on Service premises	106		
		851	
<b><u>New Investment</u></b>			
Establishment of Civil Contingencies & Response support	70		
		70	
<b><u>Income</u></b>			
Reduce Red One Contribution target	26		
Reduced Co-responder Activity	34		
Investment income due to low returns	75		
NNDR/ Sparsity/ Transition Section 31 grant	42		
		177	
<b>Core Spending Requirement</b>		<b>75,606</b>	
<b><u>Savings in 2017-18</u></b>			
Implementation of staffing reductions linked to IRMP	(1,280)		
Reduction in Retained activity levels	(86)		
Support staff reductions	(202)		
Reduction in lease charges	(305)		
Catering review	(106)		
Fuel savings as a result of vehicle efficiencies	(80)		
Fleet & Equipment Maintenance costs	(57)		
Estates (Property Maintenance)	(50)		
Light vehicles/ travel/ subs/ mileage	(62)		
Insurance Premium savings due to FRIC	(64)		
Occupational Health Contract	(50)		
Decrease in debt charges emanating from agreed capital programme		(2,341)	
<b>Transfer from Reserves</b>	(321)	(321)	
<b>CORE BUDGET REQUIREMENT</b>		<b>72,943</b>	

**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 2017-18 BUDGET**

The net revenue budget requirement for 2017-18 has been assessed as £72.943m (Option C 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 31<sup>st</sup> March 2018, 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 2017-18 to 2020-21. 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 2017-18 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO VOLATILE CHANGES**

Budget Head	Budget Provision 2017-18 £m	RISK AND IMPACT	MITIGATION
Retained Pay Costs	12.4	A significant proportion of costs associated with retained pay is directly as a result of the number of calls responded to during the year. The level of calls from year to year can be volatile and difficult to predict e.g. spate weather conditions. Abnormally high or low levels of calls could result in significant variations against budget provision.	In establishing a General Reserve for 2017-18, allowance has been made for a potential overspend on this budget.
Fire-fighter' s Pensions	3.1	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 2017-18 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 2017-18 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 2017-18, due to the fact fuel prices are slowly starting to increase it is highly possible that inflationary increases could be in excess of the budget provided.	In establishing a General Reserve for 2017-18 an allowance has been made for a potential overspend on this budget
Treasury Management Income	(0.1)	As a result of the economic downturn in recent years, and the resultant low investment returns, the ability to achieve the same levels of income returns as in previous years is diminishing. The uncertainty over future market conditions means that target investment returns included in the base budget could be at risk.	The target income for 2017-18 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	(0.4)	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 2017-18.

## **THE ADEQUACY OF THE LEVEL OF RESERVES**

Total Reserve balances for the Authority as at April 2016 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, and places the Authority in the middle quartile when compared to other fire and rescue authorities.

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

## **CONCLUSION**

It is considered that the budget proposed for 2017-18 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

**LEE HOWELL**  
Chief Fire Officer

APPENDIX C TO REPORT RC/17/2

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James Livingston  
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Local Government  
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London SW1P 4DF

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

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Your ref:  
Our ref :  
Website [www.dsfire.gov.uk](http://www.dsfire.gov.uk)  
:

Date : 17<sup>th</sup> October 2016  
Please ask for : Mr Woodward  
Email : [kwoodward@dsfire.gov.uk](mailto:kwoodward@dsfire.gov.uk)

Telephone : 01392 872200  
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Direct Telephone : 01392 872317

Dear Sir,

**LOCAL GOVERNMENT FINANCE SETTLEMENT 2017-18 – TECHNICAL  
CONSULTATION PAPER**

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 consultation paper and provides at Annex A responses to those specific questions included in the document that have an impact to fire and rescue authorities.

Yours sincerely

Kevin Woodward  
Treasurer to Devon and Somerset Fire and Rescue Authority

## **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.**

### **Chapter 2 – Distribution of central resources.**

***Question 1: What other, additional grants, beyond those set out in para 2.2.2, should the Government consider including in the multi-year offer?***

*Response* – We support the inclusion of revenue support grant and rural services delivery grant as they are more general grants and would come with “no strings attached” so it will be for local determination as to how those grants are to be used.. In relation to other grants we would comment that councils will inevitably want to know whether there is to be any ring fencing attached to any, or all, of these grants. This is even more relevant at a time of reducing budgets as there are some national grants which are there to protect the more vulnerable in society e.g. attendance allowances, and therefore could be at risk of cuts if absorbed into the retained business rates system.

### **Chapter 3 – Changes to local resources.**

***Question 3: Do you agree with the council tax referendum principles for 2017-18 proposed in paragraphs 3.2.1 to 3.2.2 for principal local authorities?***

***Question 4: Do you agree that referendum principles should be extended to larger, higher-spending town and parish councils in 2017/18 as set out in paragraphs 3.3.3 to 3.3.4?***

*Response* – We welcome the additional flexibility of increasing council tax by a cash limit of £5 for some types of authority but are very disappointed that this flexibility is not being offered to fire and rescue authorities (FRAs).

As is illustrated below the average precept for FRAs is significantly less than that of those types of authority that are being offered the £5 flexibility.

<b>Authority Type</b>	<b>Average Band D Council Tax 2016-17</b>
Fire and rescue authorities	£71.50
Local precepting authorities (Band D >£75.46 and precept >£500k)	£134.28
Police authorities	£174.24
Shire district councils	£174.99

Your new proposal to introduce referendum limits to local precepting authorities indicates that of the total 8,800 local precepting authorities 120 will be affected by this proposal. **ALL of the relevant parish precepts are significantly higher than the average fire precept. In fact of the 120 parish precepts for 2016/17 only 22 are below the highest fire precept level:**

It is also important to note because of the relatively low Band D council tax figures for FRAs, typically only 4% of the total council tax bill for any area, the cost of holding the referendum would be totally disproportionate to the additional amount of precept that could possibly be achieved. For instance at our own 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 5.5% increase in council tax). Under the current system our Authority, and I would suggest all FRAs, would find it impossible to justify holding a referendum at such cost.

**We request that consideration be given to extending the same freedom offered to all shire district councils and all relevant local precepting authorities to all fire authorities.**

## APPENDIX D TO REPORT RC/17/2

### 2017/18 Revenue Budget Compared to Published 4 Year Efficiency Plan – Year 1.

COMPARISON OF DRAFT 2017/18 BUDGET TO PUBLISHED EFFICIENCY PLAN				
Item	Description	Planned Budget	2017/18 Draft Budget	Variance
<b>Opening available budget</b>		<b>(73,977)</b>	<b>(73,977)</b>	<b>0</b>
Grant changes	2020/21 is estimate at present	3,001	2,745	(256)
NNDR Core funding changes	Estimated	0	58	58
Council Tax Precept changes	Assumes 1.99% increase	(922)	(921)	1
CT Base/ surplus adjustment	Estimated	(281)	(849)	(568)
<b>Anticipated available budget for the year</b>		<b>(72,179)</b>	<b>(72,943)</b>	<b>(764)</b>
Budget <b>movement</b> (closing less opening)		1,798	1,034	(765)
Cost <b>pressures</b> identified		1,610	1,547	(63)
Forecast changes to revenue <b>income</b>		339	177	(161)
<b>Savings requirement (movement + pressures + income)</b>		<b>3,747</b>	<b>2,758</b>	<b>(989)</b>
SAVINGS ANALYSIS				
Title	Narrative/ Explanation for variance from plan	Planned Budget	2017/18 Draft Budget	Variance
<b>Programme 1 Savings (Change)</b>				
2016 Middle Management Structure		(325)	(325)	0
Catering review	Fully implemented with closure of canteen facilities	(110)	(106)	4
Non Uniformed Salary reduction	Whilst there was no target attributed to support staff savings, these have been achieved by removal of vacant posts in year	0	(202)	(202)
<b>Programme 2 Service Delivery Response Model</b>				
Whole-time Flexible Working Duty Systems	This project is currently in progress and subject to discussion with Representative Bodies	(283)	0	283
Development of 'on call' availability models	Pilots of different availability models are being progressed	(100)	(86)	14
Co-responding	Due to a change in the level of call outs received from SWAST activity has reduced, however this is reflected in reduced costs	(50)	0	50
<b>Change Programme Savings Totals</b>		<b>(868)</b>	<b>(719)</b>	<b>149</b>
<b>Savings Initiatives</b>				
Reduce change and improvement project baseline funding	Revenue budget requirement has reduced for 2017/18, seek to fund change programme from reserves subject to Authority approval	0	(116)	(116)
Non staff budget savings	Total target of £1.5m over four years. Work going on to lean budget but requires co-operation from budget holders to release excess budget	(300)	(313)	(13)
Electronic payslips	This project has not yet progressed with our current supplier	(40)	0	40
Lease charge savings	More vehicles/ equipment have been subject to lease buy-outs or return than expected	(200)	(305)	(105)
Align Whole-time budget with reduced establishment	Staff numbers have been further reduced as vacancies arose in year	(900)	(955)	(55)
<b>Improvement Initiatives</b>				
Estates structure and function	The departmental review has been on hold pending collaboration opportunities with the Police strategic alliance	(40)	0	40
Property management	Reduction in office spaces; Property Ownership models; Investment strategy (reduce expenditure)	(50)	(50)	0
<b>Other Initiatives Savings Totals</b>		<b>(1,530)</b>	<b>(1,738)</b>	<b>(208)</b>
<b>SAVINGS TOTALS (Programme + Initiatives)</b>		<b>(2,398)</b>	<b>(2,457)</b>	<b>(59)</b>
<b>Transfer (to) / from CSR reserve</b>		<b>1,349</b>	<b>301</b>	<b>(1,048)</b>

**Public Consultation Results**