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| REPORT REFERENCE NO. | RC/18/2 |
| MEETING | RESOURCES COMMITTEE |
| DATE OF MEETING | 8 FEBRUARY 2018 |
| SUBJECT OF REPORT | 2018-19 REVENUE BUDGET AND COUNCIL TAX LEVELS |
| LEAD OFFICER | Treasurer and Chief Fire Officer |
| RECOMMENDATIONS | <i>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 16 February 2018, an appropriate level of revenue budget and Council Tax for 2018-19.</i> |
| EXECUTIVE SUMMARY | <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. The Secretary of State has announced that the Council Tax threshold to be applied in 2018-19 that would trigger a requirement to hold a Council Tax referendum is to be 3.0%. This report considers potential options A and B below for Council Tax in 2018-19:</p> <p style="padding-left: 40px;">OPTION A – Freeze Council Tax at 2018-19 level (£81.57 for a Band D Property).</p> <p style="padding-left: 40px;">OPTION B – Increase Council Tax by 2.99% above 2017-18 (increase of £2.44 p.a. to £84.01 for Band D Property).</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 16 February 2018.</p> |
| RESOURCE IMPLICATIONS | As indicated in the report. |
| EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA) | Not applicable. |
| APPENDICES | <p>A. Core Net Revenue Budget Requirement 2018-19.</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> <p>D. BMG Report on Precept Consultation for 2018-19 Revenue Budget</p> <p>E. Report on Precept Consultation via Social Media</p> |
| LIST OF BACKGROUND PAPERS | 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 2018-19. 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 19 December 2017, 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 2018-19. This is to be 3.0% 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 two options, A and B below, of which the maximum proposed increase is 2.99%:
- **OPTION A** – Freeze Council Tax at 2017-18 level (£81.57 for a Band D Property);
 - **OPTION B** – Increase Council Tax by 2.99% above 2017-18 - an increase of £2.44 pa (20p a month) to £84.01 for Band D Property.
- 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 16 February 2018.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2018-19

- 2.1 The provisional Local Government Finance Settlement was announced on 19 December 2017, which provided local authorities with individual settlement funding assessment figures for 2018-19, and confirmed figures for 2019-20 as offered by the four-year settlement which has been accepted by the Authority.
- 2.2 Table 1 provides details of the Settlement Funding Assessment (SFA) for this Authority which results in a reduction in 2018-19 of 11.1% over 2017-18 and an overall reduction of 25.4% by 2019-20:

| | SFA | SFA Reduction | |
|-------------------------------|--------|----------------|---------------|
| | £m | £m | % |
| 2015-16 | 29.413 | | |
| 2016-17 | 26.873 | (2.540) | -8.6% |
| 2017-18 | 23.883 | (2.990) | -11.1% |
| 2018-19 | 22.618 | (1.265) | -5.3% |
| 2019-20 | 21.950 | (0.669) | -3.0% |
| Reduction over 2015-16 | | (7.463) | -25.4% |

- 2.3 With regard to the accepted offer of a four-year settlement, the Government has made 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 was 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 are 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 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 2018-19. This grant will be paid as a Section 31 grant (which means it is not in base funding) and 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 Since 2013-14 there has been a requirement for an authority to hold a local referendum should it propose to increase Council Tax beyond a government set limit (principles), which for this Authority results in estimated referendum costs 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 2017 – copy included at Appendix C to this report) that would apply a cash amount, e.g. £5, rather than applying a percentage increase.
- 3.2 On 19 December 2017, DCLG announced the referendum threshold to be applied in 2018-19 is 3.0% for the next two years, an increase of 1.0% over the 2017-18 limit. Whilst this is disappointing given that Police and Crime Commissioner areas have been given the flexibility to adopt a £12 threshold in 2018-19, the increase to the referendum limit recognises that Fire and Rescue Authorities are facing increasing inflationary pressures.
- 3.3 Due to the high proportion of people costs, pay awards have a significantly higher impact on the Authority's revenue budget than the effect of price rises on goods and services. Whilst not explicitly stated in the provisional finance settlement, it is likely that the raising of the referendum threshold to 3% is in recognition of likely pay awards. Each 1% pay award for staff costs the Authority £0.517m and this budget proposal contains provision for a 3% pay award for uniformed staff.

4. COUNCIL TAX AND BUDGET REQUIREMENT 2018-19

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 2018-19.

- 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 2018-19, this report considers two options A and B as below:
- **OPTION A** – Freeze Council Tax at 2017-18 level (£81.57 for a Band D Property);
 - **OPTION C** – Increase Council Tax by £2.99% above 2017-18 - an increase of £2.44 pa (20p a month) to £84.01 for Band D Property.
- 4.3 The Committee could decide to set any alternative level below 3%. Each 1% increase in Council Tax represents an 82p a year increase for a Band D property, and is equivalent to a £0.489m 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 3% threshold.
- 4.4 As outlined in Table 2 below, Option A would result in a net funding reduction for the Authority whilst Option B would result in increased funding.

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 2018-19 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 2018-19

| | OPTION A | OPTION B |
|---|-------------------------------------|--|
| | Council Tax Freeze at £81.57 | Council Tax Increase of 2.99% to £84.01 |
| | £m | £m |
| TOTAL FUNDING 2017-18 | 72.596 | 72.596 |
| Reduction in Formula Funding | (1.293) | (1.293) |
| Reduction in Retained Business Rates from Business Rate Retention System. | (0.219) | (0.219) |
| <u>Changes in Council Tax Precept</u> | | |
| - increase in Council Tax Base | 0.711 | 0.711 |
| - resulting from an increase in Band D Council Tax | - | 1.461 |
| - Decrease in Share of Billing Authorities Council Tax Collection Funds | (0.228) | (0.228) |
| Net Change in precept income | 0.483 | 1.944 |
| TOTAL FUNDING AVAILABLE 2018-19 | 71.567 | 73.029 |
| NET CHANGE IN FUNDING | (1.029) | 0.433 |
| | | |

Council Tax Base

- 4.5 The total reduction in government funding of £1.512m was expected and planned for, the Service had also anticipated an increase in Council Tax receipts of 1.35% arising from house building in the area, although the actual increase has been even higher at 1.48%. This increase has been offset by a reduced amount of surplus available to the Authority of £0.228m which reflects a lower percentage of Council Tax collection by districts.

Net Budget Requirement

- 4.6 Table 3 below provides a summary of the Core Budget Requirement for 2018-19. 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 2018-19

| | £m | % |
|--|---------------|--------------|
| Approved Net Revenue Budget Requirement 2017-18 | 72.596 | |
| PLUS Provision for pay and price increases (Pay award assumed 3.0% in 2018 for Firefighters) | 1.572 | 2.17% |
| PLUS Removal of one off income in 2017-18 | 0.579 | 0.80% |
| PLUS Inescapable Commitments | 0.422 | 0.58% |
| PLUS New Investment | 1.184 | 1.63% |
| MINUS Changes to income targets | -0.162 | -0.22% |
| CORE SPENDING REQUIREMENT 2018-19 | 76.191 | |
| INCREASE IN BUDGET OVER 2017-18 (£m) | 3.595 | 4.95% |

- 4.7 At the time of writing this report, the Service is reviewing Station Manager roles which includes a job sizing exercise to ensure equitable pay. Any resultant increases to pay would put additional pressure on the wholetime pay bill going forward as well as potential back pay. The structure of management roles is being considered and future post reductions could be used to offset the additional cost. Given that neither review is complete provision has not been made for these changes within the 2018-19 revenue budget and will need to be reflected in year via the budget monitoring process.

Budget Savings

- 4.8 As is indicated in Table 3, the Core Budget Requirement for 2018-19 (which includes provision for pay and inflation, inescapable commitments and new investment) has been assessed as £79.191m. This is more than the amount of funding available under Options A or B and therefore budget savings need to be identified in order that a balanced budget can be set. Table 4 below provides an analysis of on-going savings identified to be delivered in 2018-19.

TABLE 4 – BUDGET SAVINGS 2018-19

| REVENUE BUDGET SAVINGS | £m |
|---|----------------|
| Authority Pensions – This budget line is subject to fluctuation in the number of Injury and Ill Health retirees anticipated during the year | (0.416) |
| Estates costs – Resulting from efficiencies in premises maintenance costs and rationalisation of the Estate by moving away from a leased property in Taunton | (0.206) |
| Debt Charges – As a result of the Authority Strategy to reduce reliance on borrowing, savings are being made on debt charges | (0.089) |
| BUDGET SAVINGS (£m) | (0.711) |

- 4.9 Whilst the Service is confident that savings of £0.711m can be delivered, this still leaves the Authority with a budget shortfall in order that it can set a balanced budget for 2018/19. Based on Option B (increase of 2.99% of Council Tax) this shortfall is £2.5m. If Council Tax is frozen, the funding shortfall will increase to £3.9m. The shortfall is outlined in Table 5.

TABLE 5 – BUDGET SHORTFALL 2018-19

| SUMMARY OF ADDITIONAL SAVINGS REQUIREMENT | OPTION A £m | OPTION B £m |
|--|------------------------|------------------------|
| Net change in funding over 2017-18 | (1.029) | 0.433 |
| Increase in spending requirement since 2017-18 | 3.595 | 3.595 |
| Savings requirement 2018-19 | (4.624) | (3.162) |
| Less Budget savings already achieved | 0.711 | 0.711 |
| FUNDS REQUIRED TO BALANCE BUDGET | (3.913) | (2.451) |

- 4.10 Funding pressures and the reduction in available budget has resulted in officers considering either a reduction in revenue contribution to capital budget or relying on earmarked reserves to meet the shortfall. Given the need to maintain the Comprehensive Spending Review (CSR) earmarked reserve to fund future change activity, the proposal is for the Authority to reduce its revenue contribution to Capital in 2018-19. The Authority has a published strategy to reduce reliance on borrowing to fund capital projects and has been successful in building a reserve for Capital funding over the last few years (forecast to be £17.6m at the end of 2017-18). Reducing the budget for Revenue contribution to capital is only a short term solution as this budget requirement will increase to circa £5m a year in the future if the Authority is to avoid further borrowing.
- 4.11 Given the healthy capital reserve, reducing the budget for revenue contribution to capital presents minimal short term risk but continuing this practice will result in pressure on capital budgets over a 5-10 year period. Borrowing to support capital increases the pressure on revenue budgets through interest charges and Minimum Revenue Provision (the amount which the Authority has a regulatory responsibility to set aside each year to repay debt). Supporting capital expenditure through revenue budgets represents a sound and prudent approach to long term financial planning. A Council Tax freeze would increase the likelihood of having to borrow to support Capital expenditure in the future, which is contrary to the financial strategy that the Authority has followed in recent years.
- 4.12 As outlined in Paragraphs 4.5 and 4.7 to 4.11 above, it is proposed as part of this draft budget that, in the event of a 2.99% increase to Council Tax (Option B) the revenue contribution to capital expenditure is reduced by £2.541m to £1.221m (of which an amount of £0.300m is earmarked from Red One contribution) in order to balance the budget for the 2018-19 financial year.
- 4.13 Each 1% increase in Council Tax income represents £0.489m of additional funding which could be used to support our future capital programme, some examples of what could be funded by maintaining a revenue contribution to capital as a result of a Council Tax increase of 2.99% are outlined overleaf:

| Item of Capital Expenditure | Illustrative quantity which could be funded under Option B (£1.221m of Capital Funding available) | Total cost |
|-----------------------------|---|------------|
| RDS Fire Station Rebuild | 1 | £900,000 |
| Medium Rescue Pump | 4 | £1,160,000 |
| Rapid Intervention Vehicle | 10 | £1,120,000 |

4.14 Should the Committee decide to recommend to the Authority Council Tax Option A (Council Tax Freeze), then there will be insufficient revenue contribution to Capital remaining after excluding the £0.300m Red One Funds to balance the budget for the 2018-19 financial year.

4.15 In that event, it is proposed that £0.219m is funded by a transfer from the National Non-Domestic Rates (NNDR) smoothing reserve, which was set up to allow for annual variations to NNDR income. Given that NNDR income has reduced by £0.219m since 2017-18 it is appropriate to utilise the reserve in order to lessen the impact of reduced funds. In addition, a further transfer from reserves of £0.321m will be required to balance the revenue budget for which the Comprehensive Spending Review (CSR) earmarked reserve would be utilised. This reserve was established in order to offset funding shortfalls.

TABLE 6 – PROPOSALS TO BALANCE 2018-19

| | OPTION A | OPTION B |
|--|---------------------------------|--|
| | Council Tax Freeze at £81.57 £m | Council Tax Increase of 2.99% to £84.01 £m |
| PROPOSALS TO BALANCE THE REVENUE BUDGET | | |
| Revenue Contribution to Capital – Reducing the budget for Revenue contribution to capital is only a short term solution as this budget requirement will increase to circa £5m a year in the future if the Authority is to avoid further borrowing | (3.373) | (2.451) |
| Transfer from Reserves – given that NNDR funding has decreased since last year, the equivalent amount is taken from the NNDR smoothing reserve | (0.219) | |
| Transfer from Reserves – in order to balance the revenue budget, the Comprehensive spending review reserve (CSR) is utilised | (0.321) | |
| TOTAL | (3.912) | (2.451) |

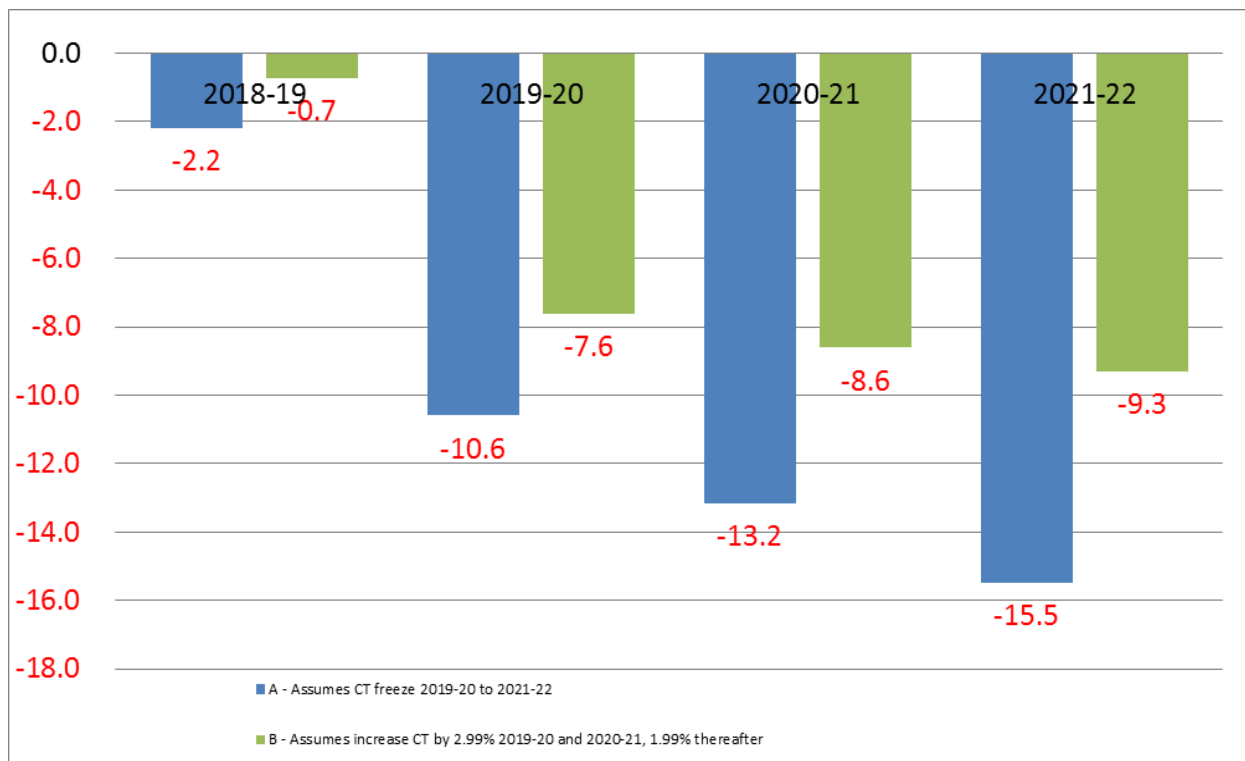
5. **MEDIUM TERM FINANCIAL PLAN**

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 short term. This means that the Medium Term Financial Plan (MTFP) needs to be planning for further significant reductions beyond the saving of £0.711m achieved in 2018-19.

5.2 Clearly it is difficult to provide forecasts into future years with absolute certainty, particularly in relation to future pay awards (which are likely to see significant increase), 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 2021-22 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 2019-20 to 2021-22. Chart 1 provides an analysis of those forecast savings required in each year.

**CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE)
2018 TO 2022 (BASE CASE) - £MILLIONS**



5.4 Chart 1 illustrates that further savings will be required beyond 2018-19 to plan for a balanced budget over the next three years to 2021-22. Should the Authority decide to freeze Council Tax in 2018-19 (Option A) and the following three years then the MTFP forecast that further savings of £15.5m need to be planned for.

5.5 As is stated earlier in this report each 1% increase in Council Tax results in additional precept of £0.489m. Should it be agreed to increase Council Tax by 2.99% in 2018-19 (Option B) and by the maximum increase (not subject to a decision at this meeting) in each year from 2019-20 to 2021-22 then the saving target by 2020-22 would be reduced from £15.5m to £9.3m.

6. **PLANS TO DELIVER SAVINGS 2018-2022**

Our Plan 2018 onwards

6.1 This budget report proposes a balanced budget for the next financial year 2018-19 including proposals as to how budget savings can be achieved.

6.2 Looking beyond 2018-19 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 In the ensuing time period, a new Integrated Risk Management Plan (IRMP) is under development and change plans including financial implications will be brought to the Authority depending on the outcome of the IRMP consultation.

7. **PRECEPT CONSULTATION 2018-19**

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 20 October 2017 the Fire Authority considered the issue of Council Tax precept consultation and resolved (Minute DSFRA/41 refers):

AGREED that, consultation in relation to the budget and precept for 2018-19 be conducted on the basis of:

- A telephone survey for both business and the public;
- A street survey for the public; and
- Use of social media

with all associated costs not to exceed £13,500.

7.4 In line with the Authority decision, arrangements were made for a telephone survey to be undertaken with the business community and members of the public. 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 It was not possible to conduct a street survey of members of the public in addition to the telephone survey within the budget available. A decision was made by the Executive Board that resources should be focused on promotion of the consultation online and through social media.

7.6 The telephone survey was conducted by BMG Research, an external contractor, at a cost of £11,750.

7.7 An online survey was also created using the telephone survey script and a link provided on the Service’s website. This was promoted through the Service’s social media platforms Facebook and Twitter. In addition to the online survey and to make use of social media platforms, a Twitter poll was created asking Twitter users their opinions on the level of Council Tax increase they considered reasonable. The only costs incurred for the online and social media consultation were those of internal staff time.

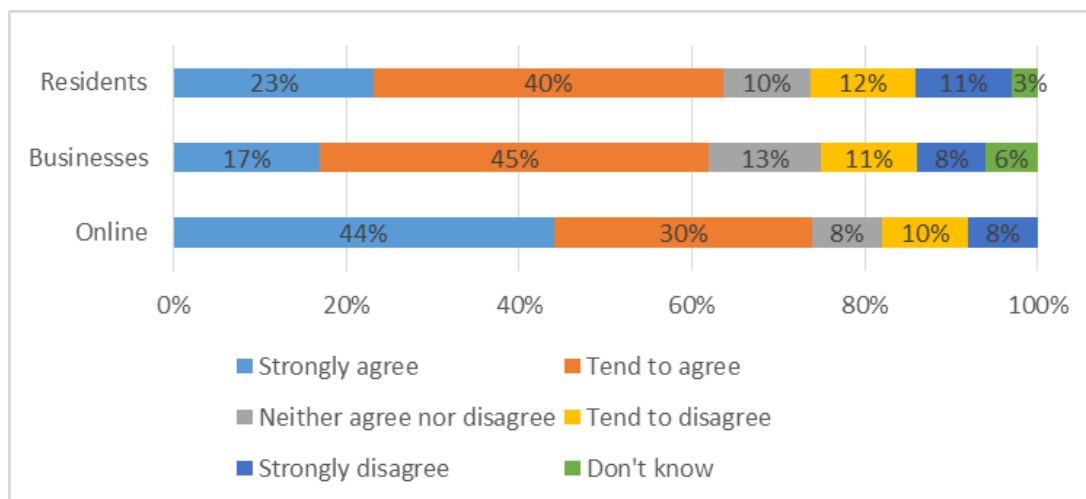
7.8 The consultation period ran from the week beginning Monday 13 November 2017 until Monday 18 December 2017. A summary of the results are displayed below, combining the telephone and online responses. It would not be appropriate to combine the Twitter responses as the context and methodology of the poll differed to that of the telephone and online surveys. Due to rounding the percentages in the graphs may equal 100% + or – 1%. The full results of the telephone survey, online survey and Twitter poll can be found in Appendices D and E.

RESULTS

7.9 *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 1, illustrate that the majority of business respondents (62%) 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 also positive with 63% in agreement that it was reasonable for the Authority to consider increasing Council Tax charges. Online responses were even more positive with 73% in support for increasing the precept.

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



Unweighted sample base: 400 businesses, 400 residents, 50 online
 N.B Online responses have not been separated into business and residents due to the low sample size.

7.10 The results of the telephone business survey have remained fairly consistent over the last three years: from 57% in 2015, 61% in 2016 and 64% in 2017. The results from the telephone survey with members of the public showed a decrease in agreement over previous years from 79% in 2015, 85% in 2016 and 71% in 2017. 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.

7.11 These results suggest strong support for the Authority to consider increasing the precept to minimise the impact of cuts to the government grant.

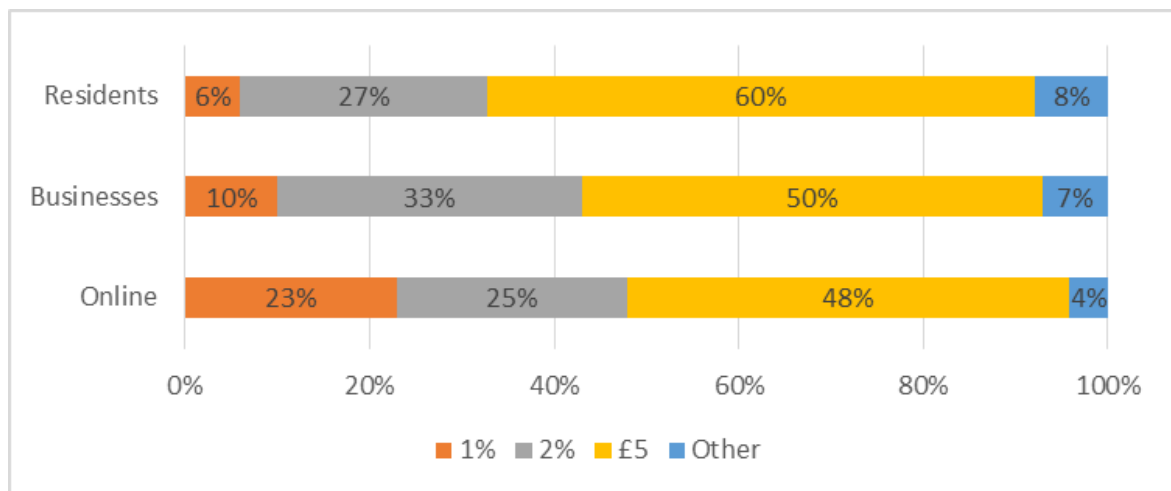
7.12 Those respondents who disagreed to Question 1 were asked why and their responses recorded. Typical comments received have been included in the full reports in Appendix D.

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

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 (50%) were in favour of a £5 increase to the precept as seen in Chart 2. Similarly, the majority of public respondents (60%) were also in favour of a £5 increase. 48% of respondents to the online survey were also in support of a £5 increase.

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



Unweighted sample base: 252 businesses, 242 residents, 48 online

7.14 It is not possible to compare these results with previous years as the option of a £5 increase was not previously consulted upon. In 2017, a 2% increase was supported, with 74% from businesses and 60% from members of the public.

7.15 Conversely, the results of the Twitter poll indicate that most respondents did not consider an increase in Council Tax charges reasonable. The question posed on Twitter was as follows:

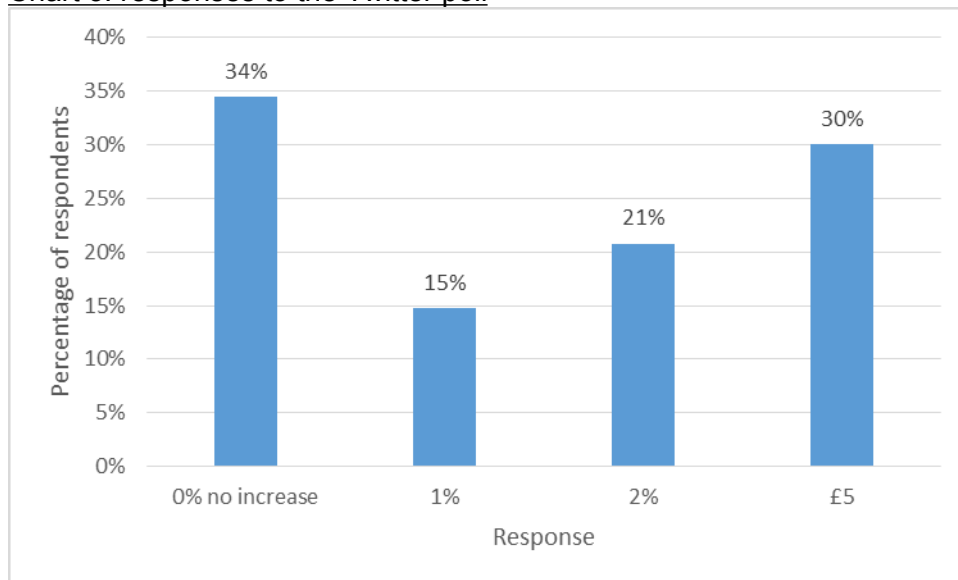
Devon and Somerset Fire and Rescue Authority is considering its Council Tax charges for 2018/19. The current charge is £81.57 a year for a Band 'D' property. What level of increase would you consider reasonable? For more information visit our website dsfire.gov.uk/consultation.

- 0% no increase
- 1%
- 2%
- £5 for band D (pro rata)

The Service received a total of 178 responses to the Twitter poll.

7.16 The chart below indicates that 34% of respondents to the Twitter poll voted for no increase, as opposed to 30% who voted for a £5 increase. This could be attributed to the different demographic of Twitter users, or to the difference in methodology.

Chart 3: responses to the Twitter poll

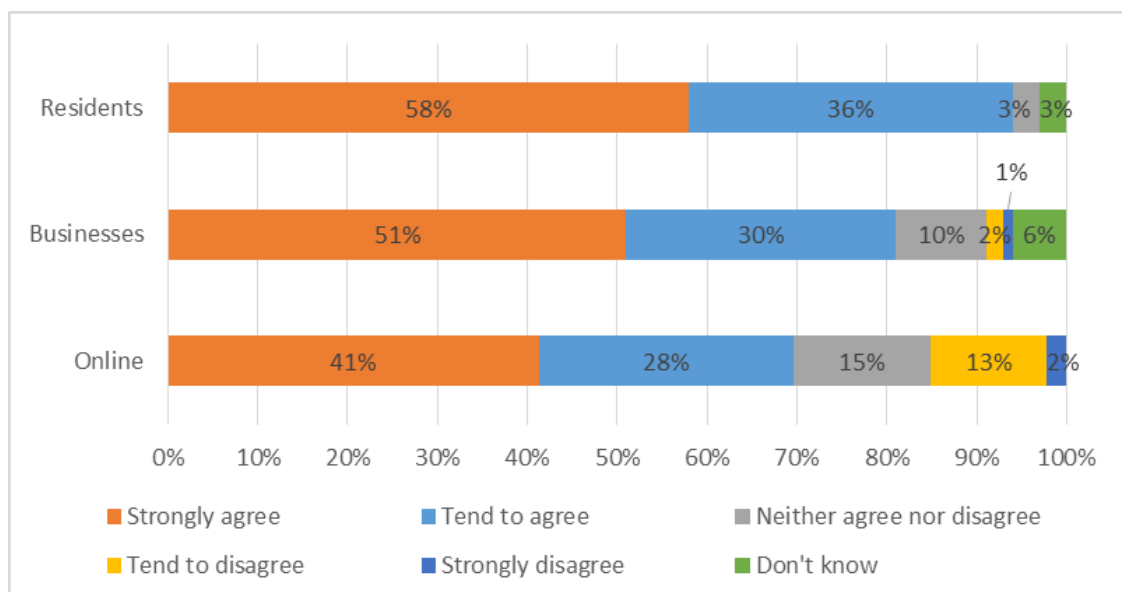


7.17 Although less so from Twitter users, the responses overall suggest support for the Authority to consider increasing the precept by £5 to minimise the impact of cuts to the government grant.

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

For businesses, 81% agreed that the Service provides value for money. For members of the public 94% agreed that the Service provides values for money, with no respondent disagreeing to this. The online responses were slightly less positive than the telephone surveys, with 69% agreeing that the Service provides value for money.

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



Unweighted sample base: 400 businesses, 400 residents, 46 online

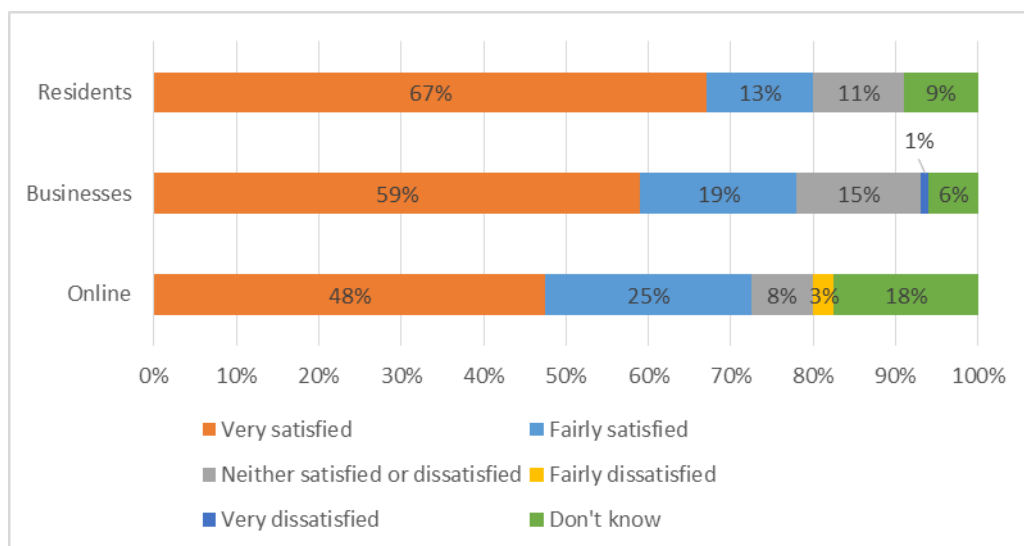
7.19 The level of agreement from businesses (81%) has been fairly consistent over the last three years, with 81% in 2015, 79% in 2016 and 83% in 2017. The trend for members of the public, although slightly more positive this year (94%) is fairly consistent; 99% in 2015, 93% in 2016 and 89% in 2017.

7.20 The results suggest that residents and businesses are satisfied that the Service provides value for money.

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 (78% from businesses and 80% from members of the public, 73% from the online survey).

Chart 5: Question 4 results of satisfaction with Service.



Unweighted sample base: 400 businesses, 400 residents, 40 online

7.22 Levels of satisfaction for businesses appear fairly consistent over the last three years with results of 77% satisfaction recorded in 2017, 76% in 2016 and 74% in 2014. Levels of satisfaction for members of the public show an increase on last year at 77% (prior to 2017, 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.)

7.23 The results suggest that residents and businesses are satisfied with the service provided by the Service.

SURVEY CONCLUSION

7.24 The results of the consultation indicate that a significant majority of respondents feel it would be reasonable for the Authority to consider increasing its precept for 2018/19. Those who agreed that it would be reasonable to consider an increase in the Council Tax precept were predominantly in favour of a £5 increase (50% of business respondents, 60% of public respondents, 48% of online respondents, but only 30% of Twitter respondents).

- 7.25 Since the survey was conducted, DCLG have confirmed that the maximum amount of Council Tax increase before a referendum is triggered is 3% and therefore a suggested Council Tax increase of 2.99%, equivalent to £2.44 for a Band D property is included within this report. The increase outlined in Option B of 2.99% represents a reduction against the maximum consultation figure of £5.00 or 6.13%.
- 7.26 Both business respondents and members of the public agreed that the Service provides value for money, at around £42 per head of the population per year, and were satisfied by the service provided by Devon and Somerset.

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

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

9. SUMMARY

- 9.1 The Authority is required to set its level of revenue budget and Council Tax for 2018-19 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 16 February 2018.

AMY WEBB
Director of Finance (Treasurer)

GLENN ASKEW
Chief Fire Officer

APPENDIX A TO REPORT RC/18/2

DRAFT REVENUE BUDGET REQUIREMENT 2018-19 (BASED UPON OPTION B FOR ILLUSTRATIVE PURPOSES)

| | £'000 | 2018/2019 £000 | % |
|---|--------|-------------------|------|
| Approved Budget 2017-18 | | 72,596 | |
| <u>Provision for pay and prices increase</u> | | | |
| Uniformed Pay Award (assume 3.0% from July 2018) | 932 | | |
| Non-uniformed Pay Award (assume 2% from April 2018) | 205 | | |
| Prices increases (assumed 2.7% CPI from April 2018) | 352 | | |
| Pensions inflationary increase (tracks CPI) | 83 | | |
| | | 1,572 | 2.2% |
| <u>Funding Adjustments</u> | | | |
| Removal of Reserve funding of revenue budget 2017-18 | 579 | | |
| Removal of USAR grant income for 2018-19 as funds received in advance | 945 | | |
| USAR income to be transferred in from Reserves | -945 | | |
| | | 579 | |
| <u>Inescapable Commitments</u> | | | |
| Support Staff Increments | 29 | | |
| Network Fire Services Partnership | 103 | | |
| Retained pay - Fixed/variable/NI/Super all increased | 145 | | |
| Cumulative minor budget variances | 145 | | |
| | | 422 | |
| <u>New Investment</u> | | | |
| Fleet equipment previously in capital programme | 619 | | |
| Increase in Prevention Activity | 404 | | |
| New apprentice posts | 85 | | |
| ICT Service Development changes | 44 | | |
| Fire Safety School training & seminars | 32 | | |
| | | 1,184 | |
| <u>Income</u> | | | |
| Increase Red One Contribution target | -223 | | |
| Increase Co-responder Activity | -61 | | |
| Sparsity and Section 31 grants | 122 | | |
| | | -162 | |
| <u>Anticipated savings</u> | | | |
| Pensions - anticipate reduced Ill Health/ Injury leavers | -416 | | |
| Chiltern House closure | -102 | | |
| Estates (Property Maintenance) | -104 | | |
| Revenue Contribution to Capital | -2,452 | | |
| Decrease in debt charges emanating from agreed capital programme | -89 | | |
| | | -3,163 | |
| Transfer from Reserves | | | |
| CORE BUDGET REQUIREMENT | | 73,028.0 | |

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 2018-19 BUDGET

The net revenue budget requirement for 2018-19 has been assessed as £73.028m (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 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 2019-20 to 2021-22. 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 2018-19 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO VOLATILE CHANGES

| Budget Head | Budget Provision 2018-19 £m | RISK AND IMPACT | MITIGATION |
|----------------------------|-----------------------------|--|---|
| Wholetime Pay Costs | 28.7 | Wholetime Pay represents nearly a third of Service costs. There is a high level of uncertainty around future pay increases, particularly whether pay awards will be linked to a change to the Firefighter role map to include emergency medical response. Each 1% pay award is equivalent to £xxx of additional pressure on the revenue budget. It is not anticipated that any additional funding will be allocated for pay and therefore large increases could mean the Authority needs to utilise reserves in order to balance its budget. | An unfunded pay award of 3% has been factored in to the budget for 2018-19 which represents a prudent approach. |
| Retained Pay Costs | 12.8 | 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 2018-19 an allowance has been made for a potential overspend on this budget |
| Fire-fighter's Pensions | 2.7 | 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 2018-19 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 2018-19 an allowance has been made for a potential overspend on this budget |
| Fuel Costs | 0.7 | As 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 2018-19 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 2018-19 has been set at a prudent level of achieving only a 0.3% 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 | (0.7) | 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 setting the reliance on the Service budget for Red One Income at £0.3m. 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 | 10.3 | 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 | (0.6) | 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 £0.6m set up for NNDR smoothing in future years of which £0.2m is expected to be utilised in 2018-19 if Council Tax is frozen at 2017-18 levels. |

THE ADEQUACY OF THE LEVEL OF RESERVES

Total Reserve balances for the Authority as at April 2017 is £35.3m made up of Earmarked Reserves (committed) of £30.0m, and General Reserve (uncommitted) of £5.3m. This will decrease by the end of the financial year as a result of planned expenditure against those reserves during the year. A General Reserve balance of £5.3m is equivalent to 7.3% of the total revenue budget, or 27 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 2018-19 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.

AMY WEBB
Director of Finance (Treasurer)

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Chief Fire Officer

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Dear Sir,

**LOCAL GOVERNMENT FINANCE SETTLEMENT 2018-19 – 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 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.**

Section 2.1 – The multi-year settlement offer – certainty over funding.

Question 1: Do you agree that the government should continue to maintain the certainty provided by the 4-year offer as set out in 2016-17 and accepted by more than 97% of local authorities?

Response – We agree that the certainty over funding provided by the multi-year offer should continue, however in light of new financial pressures since acceptance of the offer, particularly new ways of working following the catastrophic fire at Grenfell Tower, and pay awards in excess of the 1% included in the 4-year offer, we would want the 2018-19 settlement to announce some additional government funding for fire and rescue authorities to fund these pressures.

Section 4.1 – Council Tax referendum principles for local authorities.

Question 9: Do you have views on Council Tax referendum principles for 2018-19 for principal local authorities?

Question 10: Do you have views on whether additional flexibilities are required for particular categories of authority? What evidence is available to support this specific flexibility?

Response – It is our view that because the cost of holding a referendum is prohibitive for fire and rescue authorities they should be removed from the Council Tax referendum principles altogether.

The relatively low Band D Council Tax figures for FRAs, typically only 4% of the total Council Tax bill for any area, means that the cost of holding the referendum would be totally disproportionate to the additional amount of precept that could possibly be achieved. For instance, for Devon and Somerset Fire and Rescue Authority, which has fifteen billing authorities across its two counties, the cost of holding a referendum has been estimated at £2.3m (equivalent to a 5.5% increase in Council Tax). We could not possibly justify this cost which would represent exceptionally bad value for money to our taxpayers.

If the referendum principles are to continue for fire and rescue authorities then it is our view that the proposed limit of “less than 2%” be revised to be “less than 2% or up to £5, whichever is the higher”. This would provide the same flexibility as offered to other local authority types i.e. all shire district councils and those police authorities with precepts in the lowest quartile. As is illustrated overleaf, the average precept for those groups is significantly higher than that of a fire and rescue authority.

| Authority Type | Average Band D Council Tax 2016-17 |
|--|---|
| 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 |

This request for an additional flexibility of a £5 limit was also included in our response to last year's settlement technical consultation and it was very disappointing that no flexibility was offered in the final settlement.

It is our view that the case for this additional flexibility is even more overwhelming this year in the light of new financial pressures on the Service and in the event that no additional government funding is made available to meet these pressures. Recent terrorist incidents and large scale fires such as the Grenfell fire demonstrate that authorities need to be able to respond to a range of incidents. During the current year the UK national threat level has been raised to critical on two occasions to date. It is also likely that a number of recommendations will come from the Grenfell enquiry that will place additional financial burdens on fire and rescue authorities.

Pay and inflation pressures will also have a significant impact to medium term financial plans. The most recent pay offer for firefighters of 2% from July 2017 (and possible further 3% from April 2018 subject to government funding) is more than had been planned during the four-year settlement period. A cost of 2% pay award is almost the same as the additional precept received from a 2% increase leaving no funding to cover inflationary increases and other pressures.

Our medium term financial plan has built in the impact of the £7.3m reductions in grant funding as included in the four-year settlement to 2019-20, and plans are in place to deliver the required efficiency savings to ensure that a balanced budget can be set in each of those years. However we are very concerned that in the event that no additional government funding is made available to meet new cost pressures during this period then the Service will be placed in the position of identifying further efficiency savings which will inevitably include reductions in the number of firefighters.

Our medium term financial plan has also assumed increases in Council Tax of 1.99% in each year. The additional flexibility provided by a £5 cash limit would provide the Authority with an option to mitigate some of the additional cost pressures through increased precept, subject to engagement with its local taxpayers as to how what the level of increase should be and how the additional precept will be utilised.