

REPORT REFERENCE NO.	RC/19/4
MEETING	RESOURCES COMMITTEE (Budget)
DATE OF MEETING	7 FEBRUARY 2019
SUBJECT OF REPORT	2019-20 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 19 February 2019, an appropriate level of revenue budget and Council Tax for 2019-20.</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 2019-20 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 2019-20:</p> <p style="padding-left: 40px;">OPTION A – Freeze Council Tax at 2018-19 level (£84.01 for a Band D Property).</p> <p style="padding-left: 40px;">OPTION B – Increase Council Tax by 2.99% above 2018-19 (increase of £2.51 pa to £86.52 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 19 February 2019.</p>
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	Not applicable.
APPENDICES	<p>A. Core Net Revenue Budget Requirement 2019-20.</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 2019-20 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 2019-20. 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 13 December 2018, the Ministry of Housing, Communities and Local Government (MHCLG) announced as part of the provisional Local Government Settlement the Council Tax limit to be applied in 2019-20. 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 excess 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 2018-19 level (£84.01 for a Band D Property).
 - **OPTION B** – Increase Council Tax by 2.99% above 2018-19 - an increase of £2.51 pa (21p a month) to £86.52 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 19 February 2019.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2019-20

- 2.1. The provisional Local Government Finance Settlement was announced on 13 December 2018, which provided local authorities with individual settlement funding assessment figures for 2019-20, being the last of 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 2019-20 of 2.91% over 2018-19 and an overall reduction of 25.3% since 2015-16:

TABLE 1 – SETTLEMENT FUNDING ASSESSMENT (SFA)			
	SFA	SFA Reduction	
	£m	£m	%
2015-16	29.413		
2016-17	26.873	-2.540	-8.64%
2017-18	23.883	-2.990	-11.13%
2019-20	22.618	-1.265	-5.30%
2019-20	21.961	-0.657	-2.91%
Reduction over 2015-16		-7.452	-25.34%

- 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 £81m Rural Services Delivery Grant which is only available to the most sparsely populated rural areas. The award is £424k for 2019-20. 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 MHCLG to consider an alternative set of principles for fire and rescue authorities (most recent letter to MHCLG 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 13 December 2018, MHCLG announced the referendum threshold to be applied in 2019-20 will remain at 3.0%. Whilst this is disappointing given that Police and Crime Commissioner areas have been given the flexibility to adopt a £24 threshold in 2019-20, the current 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.

3.4. Each 1% pay award for staff costs the Authority £0.540m and this budget proposal contains provision for a 2% pay award for all staff.

4. COUNCIL TAX AND BUDGET REQUIREMENT 2019-20

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 2019-20.

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 2019-20, this report considers two options A and B as below:

- **OPTION A** – Freeze Council Tax at 2018-19 level (£84.01 for a Band D Property);
- **OPTION C** – Increase Council Tax by 2.99% above 2018-19 - an increase of £2.51 pa (21p a month) to £86.52 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 84p a year increase for a Band D property, and is equivalent to a £0.524m 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 2019-20 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
2019-20**

	OPTION A	OPTION B
	Council Tax Freeze at £84.01	Council Tax Increase of 2.99% to £86.52
	£m	£m
TOTAL FUNDING 2018-19	73.871	73.871
Reduction in Formula Funding	(0.776)	(0.776)
Decrease in Retained Business Rates from Business Rate Retention System.	(0.083)	(0.083)
<u>Changes in Council Tax Precept</u>		
- increase in Council Tax Base	0.694	0.694
- resulting from an increase in Band D Council Tax	-	1.524
- increase in Share of Billing Authorities Council Tax Collection Funds	(0.002)	(0.002)
Net Change in precept income	0.692	2.216
TOTAL FUNDING AVAILABLE 2019-20	73.704	75.228
NET CHANGE IN FUNDING	(0.167)	1.358

Council Tax Base

- 4.5. The total reduction in government funding of £0.776m was expected and planned for, the Service had also anticipated an increase in Council Tax receipts of 1.50% arising from house building in the area, although the actual increase has been lower than forecast at 1.38%. The Authority's share of Council Tax collection fund surplus has decreased by £0.002m which reflects a slight decline in the rate of Council Tax collection by districts.

Net Budget Requirement

- 4.6. Table 3 overleaf provides a summary of the Core Budget Requirement for 2019-20. 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 2019-20

	£m	%
Approved Net Revenue Budget Requirement 2018-19	73.871	
PLUS Provision for pay and price increases (Pay award assumed 2%)	1.502	2.03%
PLUS Removal of one off provisions in 2018-19	(0.248)	-0.34%
PLUS Inescapable Commitments	4.882	6.61%
PLUS New Investment	1.071	1.45%
MINUS Changes to income	(3.292)	-4.46%
CORE SPENDING REQUIREMENT 2019-20	77.786	
INCREASE IN BUDGET OVER 2018-19 (£m)	3.915	5.30%

- 4.7. £1.071m of new investment opportunities have been identified which will be offset by savings identified from a review of Service Delivery management structures:
- £0.150m to enable strengthening and redesign of the senior management team in order to better support the change programme - this is a suggested cost cap and will be subject to Fire Authority approval
 - £0.071m investment in Fire Safety School training and seminars – to support additional work emerging from the Grenfell tower incident
 - £0.850m of short term investment in Service Delivery activities of prevention, protection and response to realign activity to the Integrated Risk Management Plan and the Safer Together programme

Budget Savings

- 4.8. As is indicated in Table 3, the Core Budget Requirement for 2019-20 (which includes provision for pay and inflation, inescapable commitments and new investment) has been assessed as £77.786m. 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 overleaf provides an analysis of on-going savings identified to be delivered in 2019-20.

TABLE 4 – BUDGET SAVINGS 2019-20

REVENUE BUDGET SAVINGS	
Budget Management Savings – As in previous years the budget setting process has included the requirement for budget managers to scrutinise non-operational budget heads with a view to the identification of recurring savings. This process and challenge by managers has identified £0.487m of recurring savings which include ICT Delivery, On Call Activity, Vehicle Leasing and Estates Management Costs	(0.685)
Authority Pensions – This budget line is subject to fluctuation in the number of Injury and Ill Health retirees anticipated during the year	(0.117)
Service Delivery Restructure – Resulting from a review of the number of and role types for Station Managers across the service	(1.094)
Vacancy Margins – As a result of the current strategy to hold vacancies whilst awaiting outcomes of the Safer Together plan	(0.480)
BUDGET SAVINGS (£m)	(2.376)

- 4.9. Whilst the Service is confident that savings of £2.376m can be delivered, this still leaves the Authority with a budget shortfall in order that it can set a balanced budget for 2019-20. Based on Option B (increase of 2.99% of Council Tax) this shortfall is £0.183m. If Council Tax is frozen, the funding shortfall will increase to £1.706m. The shortfall is outlined in Table 5.

TABLE 5 – BUDGET SHORTFALL 2019-20

SUMMARY OF ADDITIONAL SAVINGS REQUIREMENT	OPTION A	OPTION B
Net change in funding over 2018-19	(0.167)	1.357
Increase in spending requirement since 2018-19	3.915	3.915
Savings requirement 2019-20	(4.082)	(2.558)
Less Budget savings already achieved	(2.376)	(2.376)
FUNDS REQUIRED TO BALANCE BUDGET	(1.706)	(0.183)

- 4.10. It is proposed that the Revenue Contribution to Capital is reduced under both options, which will enable to Authority to set a balanced budget whilst the Safer Together programme is further refined to deliver savings over the medium term. However, there are implications for the long term affordability of the Capital Programme.
- 4.11. Elsewhere on this agenda is the Capital Programme for 2019-10 which also gives an indication of the proposed programme and sources of funding over the next six years. The Authority has a long term strategy to reduce reliance on borrowing and therefore it is essential that a healthy level of Revenue Contribution to Capital is maintained to fund investment in asset infrastructure.
- 4.12. 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 £0.183m to £2.319m (of which an amount of £0.300m is earmarked from Red One contribution) in order to balance the budget for the 2019-20 financial year.
- 4.13. Each 1% increase in Council Tax income represents £0.508m 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 below:

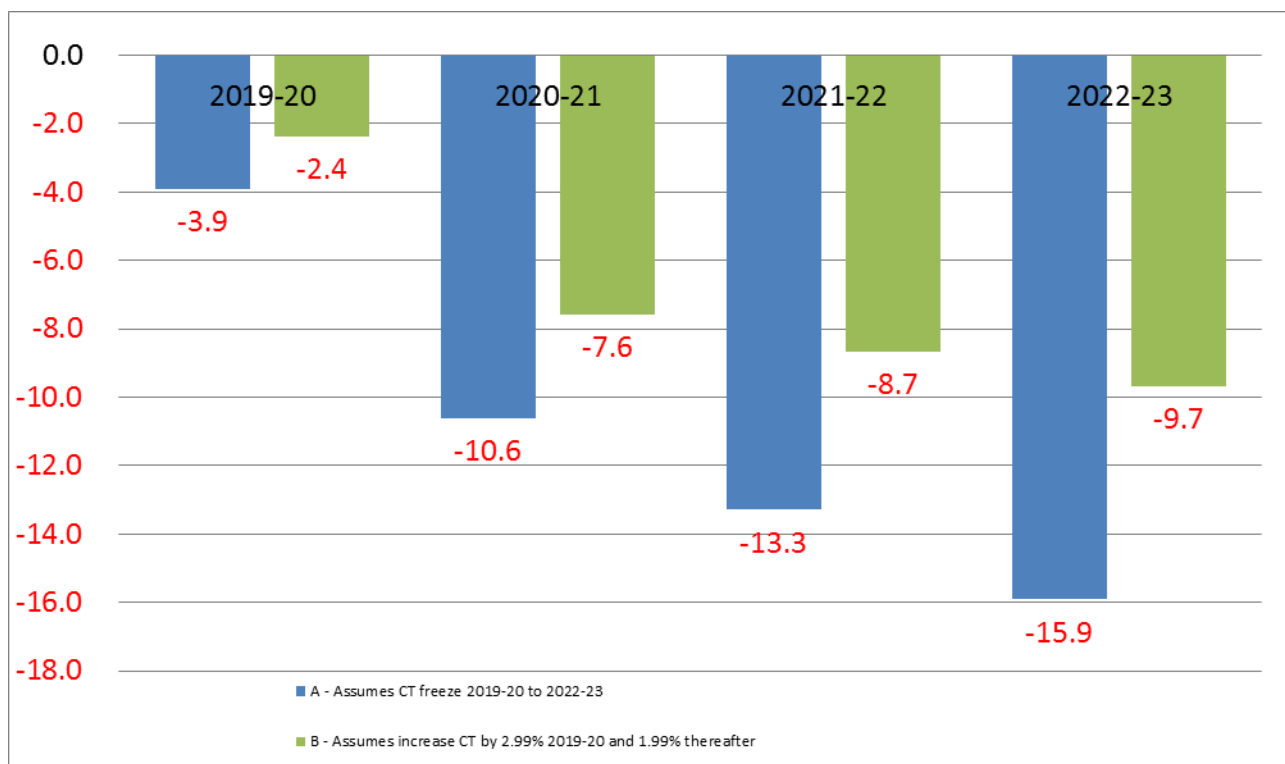
Item of Capital Expenditure	Illustrative quantity which could be funded under Option B (£2.319m of Capital Funding available)	Total cost
RDS Fire Station Rebuild	2	£1,800,000
Medium Rescue Pump	8	£2,320,000
Rapid Intervention Vehicle	20	£2,240,000

5. MEDIUM TERM FINANCIAL PLAN

- 5.1. Given that this is the last year of the four year settlement, the future funding position is less certain. Additionally, a new pensions burden has arisen from the Government Actuarial Department (GAD) valuation of the Firefighter Pension Schemes, which may result in a £4.1m cost for this Authority. There is no indication of whether the government will meet the pensions cost beyond 2019-20 and so a prudent approach has been taken, assuming the worst case, in the Medium Term Financial Plan (MTFP).
- 5.2. The approach taken to developing the plans and underlying assumptions are outlined in the MTFP document which will be taken forward to the Full Authority.

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 2022-23. Chart 1 provides an analysis of those forecast savings required in each year.

**CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE)
2019 TO 2023 (BASE CASE) - £MILLIONS**



5.4. Chart 1 illustrates that further savings will be required beyond 2019-20 to plan for a balanced budget over the next three years to 2022-23. Should the Authority decide to freeze Council Tax in 2019-20 (Option A) and the following three years then the MTFP forecasts that further savings of £12.0m 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 £0.508m. Should it be agreed to increase Council Tax by 2.99% in 2019-20 (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 £12.0m to £7.3m.

6. PLANS TO DELIVER SAVINGS 2019-2023

Authority Plan 2019 onwards

6.1. This budget report proposes a balanced budget for the next financial year 2019-20 including proposals as to how budget savings can be achieved.

- 6.2. Looking beyond 2019-20 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 being developed following approval of the Integrated Risk Management Plan and the Fire and Rescue Plan by the Authority.
- 6.3. The change programme, called Safer Together, describes the transition needed to meet our aspirations for meeting community and organisational risks and will support delivery savings needed. It is clear from the MTFP forecasts and the Capital Affordability scenarios that the Service asset base will need to be reduced to support a sustainable model for revenue and capital expenditure in the future.

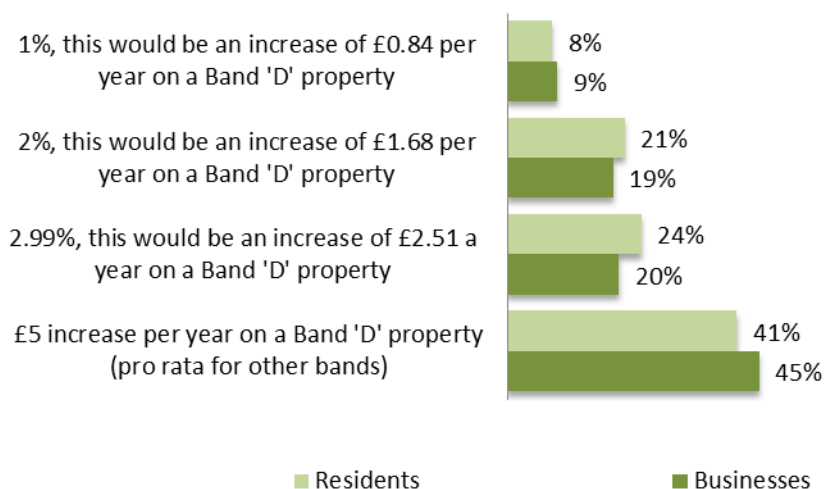
7. PRECEPT CONSULTATION 2019-20

- 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 consultation process ran throughout November and December 2018 and involved:
- A telephone survey of 400 business and 400 residents;
 - Use of an online survey promoted via social media
- 7.4. The full results of the telephone survey and online survey can be found in Appendices D and E.

Results from the Telephone Survey

- 7.5. Over three in five (65%) of businesses agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2019/20, while a fifth (19%) disagreed that it is reasonable for them to do so, resulting in a net agreement of +46%.
- 7.6. Agreement was consistent by Local Authority District (LAD), industry sector and gender. Respondents aged 55 or above were somewhat more positive (71% agreed it is reasonable for the Authority to consider increasing its Council Tax charge). Perhaps unsurprisingly those respondents who had used a service were significantly more likely to agree (70% cf. 60% who have not used a service).
- 7.7. Over three in five (67%) of residents agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2019/20, while close to a fifth (18%) disagreed, giving a net agreement of +49%.
- 7.8. Agreement was consistent by LAD and age. However, male residents were significantly more likely to agree (73% cf. 61% females). Those respondents who had used a service were more likely to agree than those who had not (77% cf. 60% who have not used a service).

Chart 1: Level of increase that would be reasonable (Those respondents agreeing that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2019/20)

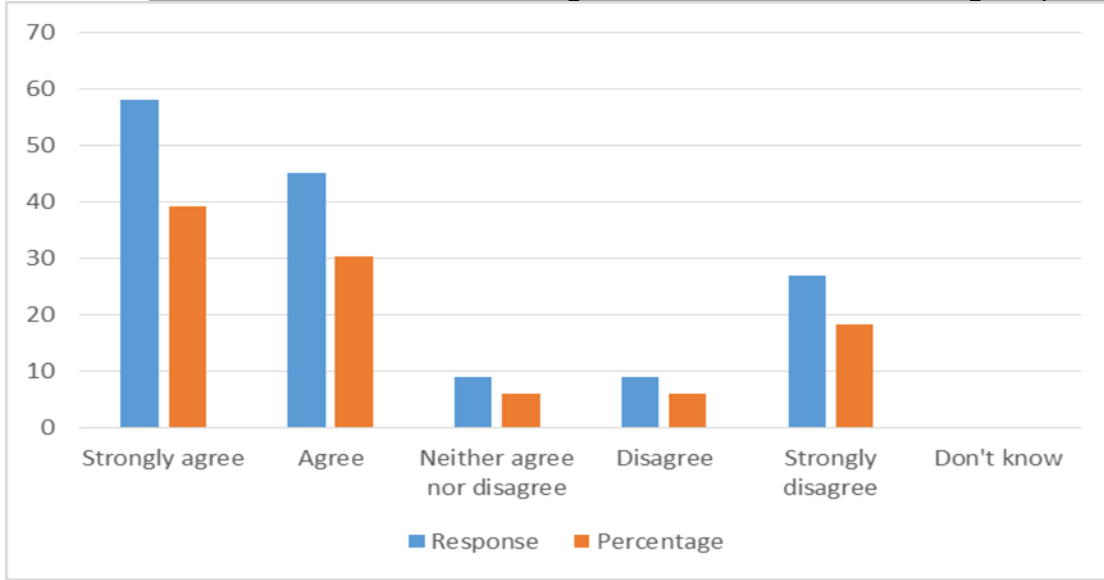


- 7.9. Of those respondents who agreed that a Council Tax increase would be reasonable, 65% of businesses and 65% of residents would support an increase of 2.99% or above.
- 7.10. 84% of business and 89% of residents felt that the Service provides value for money.
- 7.11. Additional questions were included to determine satisfaction levels; overall 80% of business and 83% of residents said they were satisfied with the service. Levels of satisfaction significantly increased amongst those who had used a service from 74% amongst those who have not used a service to 95%.

Results from the Online Survey

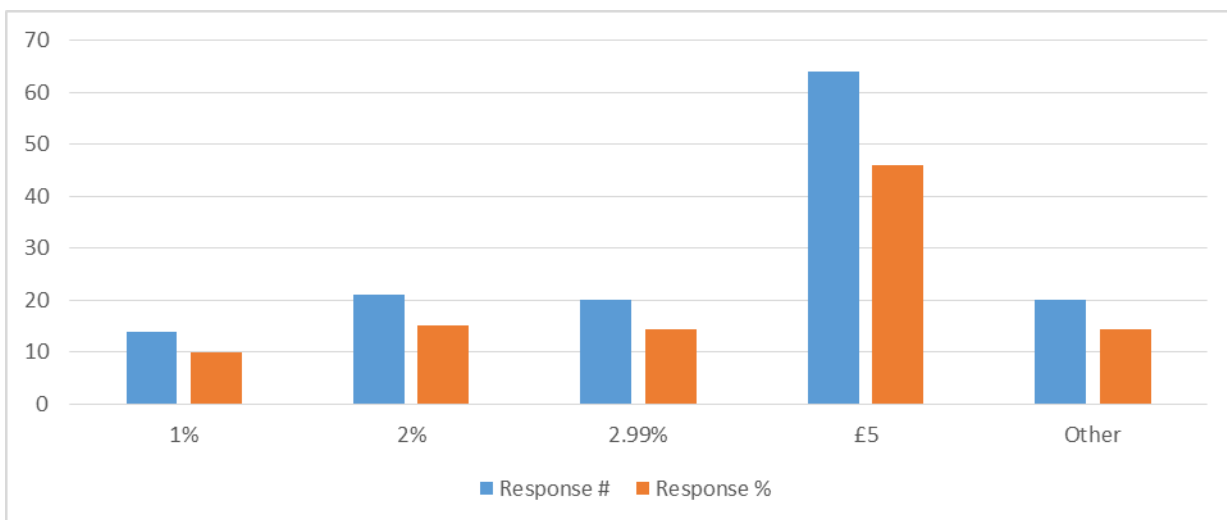
- 7.12. The online survey was available from 31 October – 21 December 2018. The consultation period was promoted through our website, press releases, targeted adverts on Facebook and Twitter.
- 7.13. In that period a total of 202 responses were received. Of those 202 responses, 149 fully completed the questionnaire and 53 partially completed it. As only five of these responses represented the business sector, the results have not been separated.
- 7.14. This year's consultation exercise highlighted a significant increase in total number of respondents when compared with the 2018/19 survey of 51 respondents.
- 7.15. The results indicate that almost 70% of respondents agree that the Authority should consider increasing its charges.

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



7.16. The results indicate that (46%) of respondents are in support of a £5 increase and that in total, 60.43% of respondents support an increase at 2.99% or above.

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



7.17. The results indicate that the majority of respondents almost 69% agree that the Service provides value for money.

7.18. Additional questions were asked to ascertain whether respondents had interacted with the Service. The results indicate that 67% of respondents had not interacted with the Service in the last 12 months, however 18% had attended Community Events and 6% had received a home fire safety check/visit.

7.19. In contrast with the phone survey, only 56% of respondents said they were satisfied or very satisfied with the service provided.

Survey Conclusion

- 7.20. 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 2019-20. 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.
- 7.21. Since the survey was commissioned, MHCLG has 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 significant reduction against the maximum consultation figure of £5.00.
- 7.22. 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 2019-20 by 1 March so that it can meet its statutory obligation to advise each of the fifteen billing authorities in Devon and Somerset of the required level of precept. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for the Authority.
- 9.2. The report considers two potential options A and B and asks the Committee to consider the financial implications associated with each option with a view to recommending one of these options to the budget setting meeting of the full Authority, to be held on the 19 February 2019

AMY WEBB
Director of Finance (Treasurer)