



DEVON &
SOMERSET
FIRE & RESCUE SERVICE



Medium Term Financial Plan

Medium Term Financial Plan 2019/20

Introduction

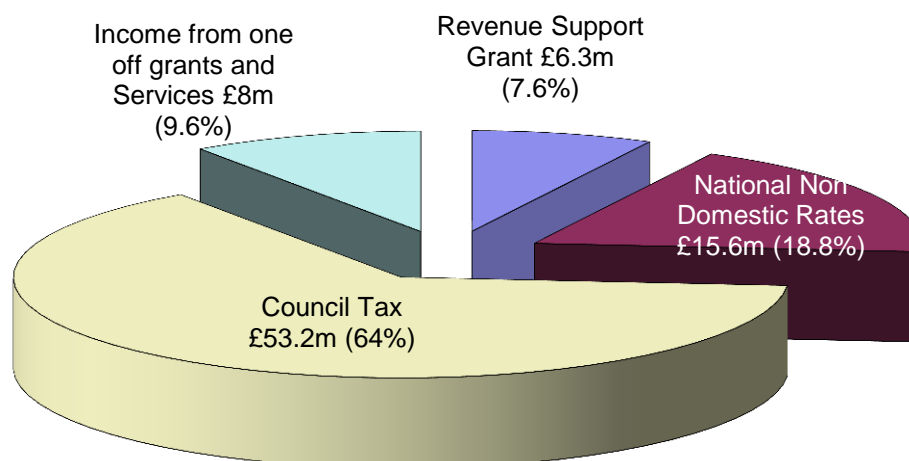
Devon & Somerset Fire & Rescue Authority (the Authority) covers a diverse geographical area across two counties; with large towns and cities, market towns and isolated rural areas alongside major roads and lengths of coastline. The current budget of £75.1m is used to resource 85 fire stations, 121 fire engines in addition to special appliances. Over 2,000 staff deliver fire prevention and protection activity, respond to calls and incidents and provide support functions.

This document is the Medium Term Financial Plan and outlines funding, income and expenditure forecasts for the next five years. The Medium Term Financial Plan will be updated annually as part of the budget setting process and will be refreshed more frequently if information which makes a material difference becomes available. Understanding our finances is really important when making decisions about the future and this document should be read alongside our Fire and Rescue Plan, Integrated Risk Management Plan, Safer Together Programme and our Reserves Strategy.

Funding and Income

We have three main sources of revenue funding; Council Tax Precept, National Non-Domestic Rates Scheme and Revenue Support Grant. Additionally, income from one-off grants, recharges and services is offset against our expenditure in order to reach the “net revenue budget” in each year.

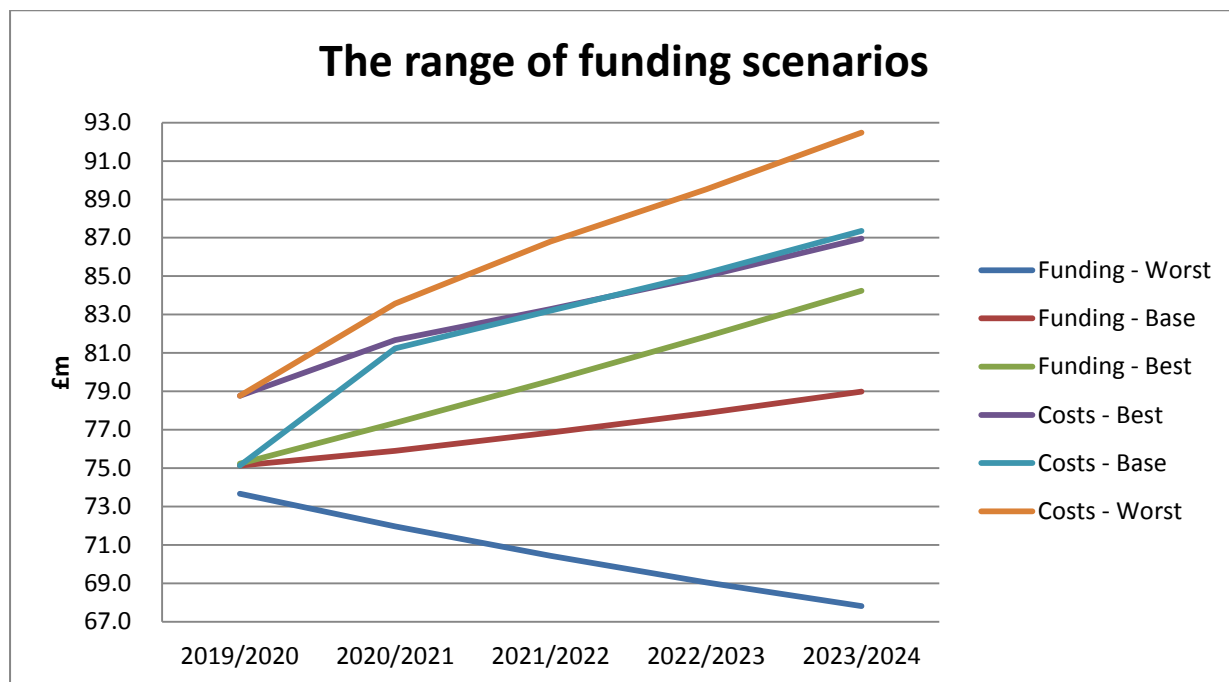
Devon & Somerset Fire & Resuce Authority - Analysis of Funding 2019/20



Building the Medium Term Financial Forecast

Planning for different scenarios: The forecasts in this document represent a “base case” scenario which has been built on the latest information from government, sector knowledge and experience of finance officers. “Worst case” and “best case” scenarios are also developed to show the impact of various funding and cost pressures:

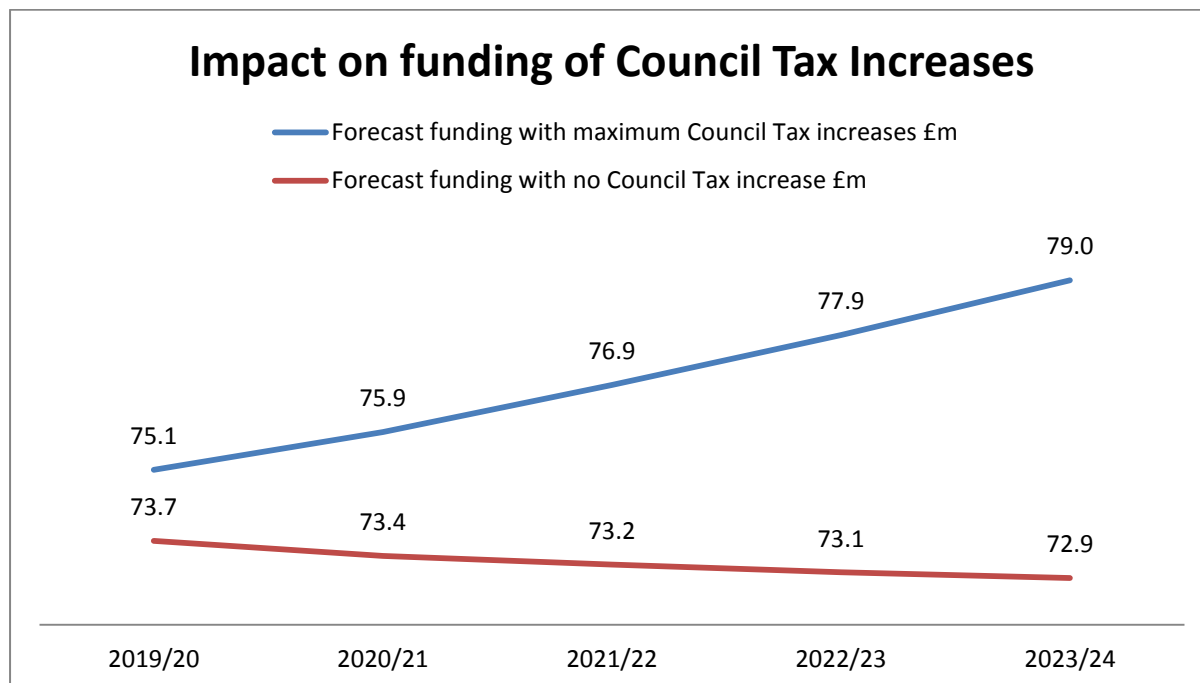
- In the Worst case; government grants are cut, pay and inflation see a steep increase, pension costs are unfunded, Council Tax is frozen and the base doesn't grow
- In the Best case; government grants, pay and inflation remain steady, pension costs are funded and Council Tax is increased ever year, with the base achieving the 2% growth estimated by government
- In the Base case, which is presented here; government grants reduce at the average of previous years, pay and inflation remain steady, pension costs are unfunded and Council Tax growth tracks at the average for the area
- The Base case is presented to the Fire Authority with options over Council Tax and savings targets are fed back in to the budget setting process each year



The range of scenarios presented in the chart above demonstrates that the savings gap (the difference between funding and costs) could vary from a deficit of £3m to £5m over the next five years. The base case represents the most likely scenario and informs the Medium Term Financial Plan. Because the Plan is reviewed annually, variations can be built in and projections are refined at regular intervals, short term exceptions can also be smoothed out using reserves.

Medium Term Financial Plan 2019/20

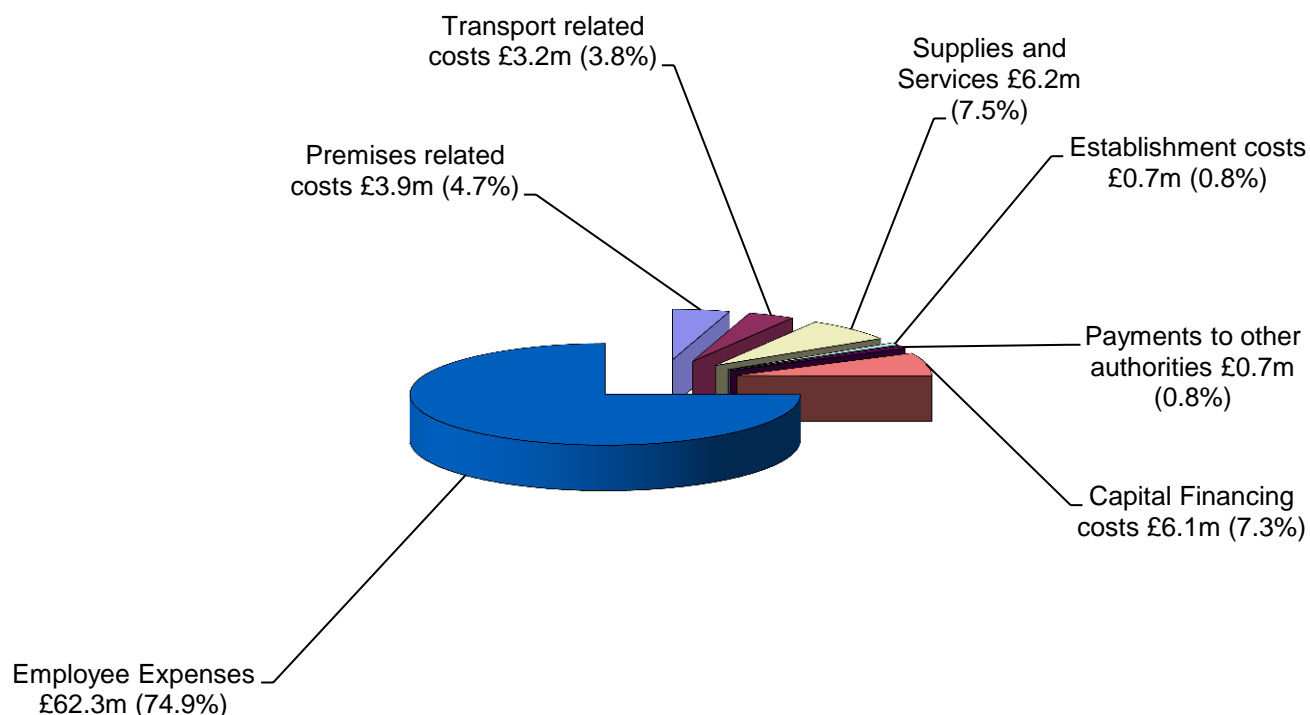
Funding: When building the five year forecast assumptions are made about each of the funding sources and how they may change in the coming years, a range of scenarios can then be used to calculate the anticipated funding available. The Authority only has direct control over the level of Council Tax raised each year and the following graph shows the impact on funding of maximum raises against no increases, which could amount to £6.3m over the next five years.



Expenditure: Assumptions are also made about forecast expenditure. The Authority can control some of its costs by managing its budget effectively; other elements are dependent on national drivers such as inflation, superannuation (pension) costs and pay awards. Expenditure is shown in the chart below and highlights that 74.9% of our costs are related to employees, meaning that increases in this area can have a significant impact on the budget.

The Capital Programme is also paid for through Revenue funds; a combination of money set aside to pay for historic borrowing, budget provision to fund future capital expenditure and Reserves designated for Capital Use.

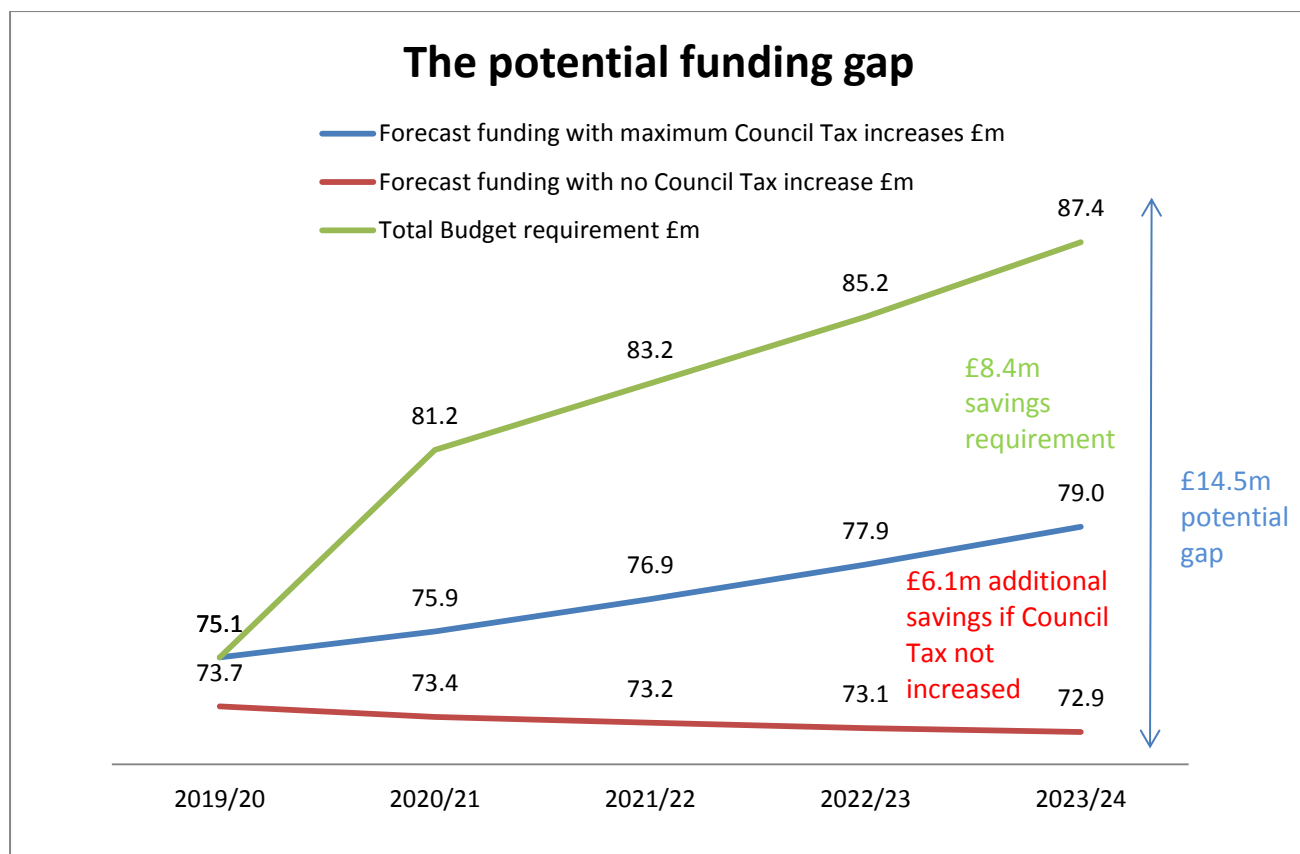
Devon & Somerset Fire & Rescue Authority - Analysis of Spending 2019/20



Cost Pressures: The medium term financial forecast identifies the following cost pressures within the next five years which are added to the current budget to reach the future budget requirement:

- Pay increases
- Inflation
- Pension increases
- Reduction to one-off grant income
- Capital investment

The most significant cost pressure at time of writing is firefighters' superannuation costs, which are anticipated to increase to 30.4% of pay following the latest governmental valuation and will cost approximately £4.1m per year extra. Whilst the majority of this increase (£3.3m) will be covered by one-off central government grant in 2019/20, the future position is uncertain. If the full cost is to be covered locally it will have a material impact on our finances.



Savings targets and the Safer Together Programme

The chart above shows the gap between potential funding available versus the budget requirement, including cost pressures. This is known as the funding gap. Over five years the funding gap could reach £14.5m if Council Tax is frozen, falling to £8.4m if increased.

We have an excellent history of achieving savings targets, with £12.2m saved over the five years to 2018/19 and also delivered in year savings which have been transferred to reserves.

Given the big challenge posed by the funding gap and the need to reform our Service, plans are underway to future proof the organisation and deliver budget savings. The Fire and Rescue Plan describes what we need to change (and why) and together with the Integrated Risk Management Plan informs the development of the Safer Together Programme. The programme will be our principal vehicle for realising the financial savings required to close the funding gap. The full Fire and Rescue Plan can be found at <http://www.dsfire.gov.uk/AboutUs/WhatWeDo/OurCorporatePlan/documents/OurFireRescuePlan000.pdf>.

Both potential financial and non-financial benefits will be mapped at the programme level and then at the project level to ensure they continue to align with our corporate vision and show how the programme contributes to the savings targets for the next four years.

The programme will be resourced through reserves in particular the 'invest to improve' reserve, details of which can be found in the Reserves Strategy.

The initial focus of the programme is the following four work streams.

Service Delivery Operating Model

This theme will develop a new model for Service Delivery. It will consist of a number of complex interdependent projects that together will deliver the new 'operational' model. It will be driven by the Integrated Risk Management Plan and will ensure that our operating model for Prevention, Protection and Response matches resources to the greatest risk.

This project is designed to deliver the following key benefits:

- Financial savings from restructuring
- Prevention and Protection activity centrally managed to ensure a consistent service that focusses resources where the risk is greatest
- Improved recruitment and retention and a more flexible and diverse workforce
- More accurately matching resources to risk
- Availability of on call appliances appropriate to the local risk
- A reduction in fires and fire related injuries particularly amongst the most vulnerable groups of people

The Digital Transformation

This is an enabling work stream and will run intrinsically through every project, ensuring we are turning data into intelligence. The primary focus will be on Service Delivery with the development of supporting technology for the new Service Delivery Model. This will enable us to work smarter ensuring we use technology to improve our ability to perform well on the incident ground, taking a digital by default approach.

Through the development and implementation of our a Digital Transformation Strategy we will have clarity on the digital solutions that are required to enable service improvements, support new ways of working and to realise savings.

This project is designed to deliver the following key benefits:

- Efficiencies leading to financial savings
- Improved compatibility and simplification of our existing systems
- Staff will have easier access to accurate and comprehensive information
- Enhanced use of mobile technology that reflects peoples' everyday use of technology
- Increased automation and reduced duplication
- Improved information management and security

Management of Fleet and Equipment.

This work stream will concentrate on the development of a robust framework for managing vehicles and equipment. It will outline a new mobile asset management strategy that will lead to new and improved processes and policies and a well-managed asset register. This will ensure we can always track our assets and are managing them in the most effective and efficient way.

Medium Term Financial Plan 2019/20

This project is designed to deliver the following key benefits:

- The development of fleet strategy to support new service delivery models, bring in new technology and reducing costs.
- Ensuring adequate resources to manage planned maintenance and defects
- Make improvements in systems and administration to secure effective and efficient ways of working and controls
- All fleet and equipment purchases are made through Fleet & Equipment department to provide greater quality and control

Learning and Development

This work stream will concentrate on defining our learning culture and a new model for developing our staff and ensuring our people have the right skills at the right time to deliver the capabilities we need in an ever changing environment. The principal project for this work stream for the next 2 years is **Training for Competence**.

This project is designed to deliver the following key benefits:

- Financial savings from new ways of working
- All personnel maintain appropriate standards of competence relevant to risks in their role and location increasing firefighter safety.
- Training is targeted leading to an increase in quality and removal of a 'sheep dip' approach.
- Systems provide managers with better interrogation & better visibility of where the organisation is in relation to competence.
- Increased appliance availability through improved compliance with competency requirements.
- Cultural change where the individual is aware and able to manage their own competence qualification and maintenance, which is scalable to the changing requirements of The Service.

Summary

The medium term financial forecast is indicating significant budget pressures over the next five year period and robust plans must be made to meet the challenge. The Service is progressing well with change plans and will need to start realising the benefits within the next year to ensure longer term financial sustainability. In addition to savings realised from the Safer Together programme, ongoing work will be done to reduce costs through budget management, procurement, collaboration and efficiency reviews.

Glossary and methodology for calculating assumptions

Council Tax Precept. Each household receives an annual Council Tax Bill which is made up of charges for various services such as County, Unitary, District and Parish Councils, Police and Fire. The charge is known as the Council Tax Precept and is determined by the Authority each year and is usually quoted as the amount for a Band D property. In Devon & Somerset there are 15 billing authorities made up of district and unitary councils and those bodies are responsible for sending out bills to households and collecting the money which is then paid over to the Authority.

Council Tax income received in each year is based on three elements and these are forecast separately:

- The amount of Council Tax Precept that each household pays is set by the Authority each year and in 2019/20 is subject to a maximum of 2.99% increase (any increase above that level would require a local referendum to be held).
- The number of households in the area (the Council Tax Base) which is estimated based on housing growth.
- The success of billing authorities in collecting their council tax; each authority will have a surplus or deficit on their collection fund, a proportion of which is passed on to the Authority (Council Tax Surplus/Deficit).

National Non-Domestic Rates, also known as Business rates retention scheme, is made up of two elements; a proportion of business rates collected by billing authorities and paid directly to the Authority and a “Top-up grant” from central government which is intended to make up the difference between the Authority’s baseline funding and actual income (calculated by central government based on a proportion of total business rates funding across the fire sector).

National Non-Domestic Rates income received in each year is based on three elements and these are forecast separately:

- The amount of Business Rates Income
- The success of billing authorities in collecting their Business Rates; each authority will have a surplus or deficit on their collection fund, a proportion of which is passed on to the Fire Authority (Surplus/Deficit)
- The amount of Top-Up Grant due to the Authority which is notified by central government annually

Revenue Support Grant is received directly from central government and is based on the Settlement Funding Agreement which is determined based on analysis of spending requirement across English Fire Services. The Settlement Funding Agreement can be set annually or for a longer period. In 2016/17 a four year funding settlement was offered and accepted by the Authority, which meant that there was certainty over the Revenue Support Grant up to 2019/20. Beyond that period assumptions have to be made as to the level of grant income to be received.

Medium Term Financial Plan 2019/20

Medium Term Financial Plan Assumptions	2019/20	2020/21	2021/22	2022/23	2023/24
Council Tax Precept	2.99%	1.99%	1.99%	1.99%	1.99%
Council Tax Base	1.39%	1.10%	1.20%	1.20%	1.20%
Council Tax Surplus	-0.34%	-5.00%	0.00%	-5.00%	-5.00%
National Non-Domestic Rates	-3.25%	0.00%	0.00%	0.00%	0.00%
Revenue Support Grant	-4.45%	-5.00%	-5.00%	-5.00%	-5.00%
Total Impact on net funding £m	1.3	0.8	1.0	1.0	1.1
Forecast funding with maximum Council Tax increases £m	75.1	75.9	76.9	77.9	79.0
Forecast funding with no Council Tax increase £m	73.7	73.4	73.2	73.1	72.9

Section 31 Grants are made from central government and determined on an annual basis. The biggest grants for the Authority are Small Business Rates Relief (reimbursement from the government for reduced business rates income), Rural Services and Transition Grants.

Grants, Reimbursements and Other Income. The Service undertakes a range of activities outside of its statutory duties, some of which are paid for by third parties. This can include Co-responding to Ambulance Service incidents, rent on our premises and running training courses.

Cost Pressures

Pay Awards are subject to agreement by the relevant National Joint Council (pay bodies for public sector) and apply to English and Welsh Fire and Rescue Authorities. Pay awards are often agreed annually within the financial year they apply and are therefore subject to variation against the forecast. Assumptions are benchmarked against the Fire Sector at least annually.

Inflation. The Authority is responsible for funding inflationary increases', The rate is set for pensions on an annual basis (2.7% for 2019/20) and prices for goods and services may fluctuate depending on the contract in place for purchasing them.

Superannuation. The Authority is responsible for paying employer pension contributions (also known as superannuation) which are based on a percentage of pensionable pay. There are several pension schemes for firefighters and support staff and the employer contribution percentage rates are determined every three years via an actuarial valuation. Superannuation currently accounts for around 15% of expenditure on employee costs so variations to rates can have a significant impact e.g. a 1% increase to Firefighter pension costs is equivalent to £0.350m. Estimated increases are included in the Medium Term Financial Plan as a cost pressure.

Capital Programme. Significant purchases of assets costing £5,000 or more with a useful life beyond one year are classified as Capital expenditure. Capital expenditure can include purchasing vehicles and equipment, building new stations, extensions and major refurbishment, as well as ICT infrastructure.

Medium Term Financial Plan 2019/20

Medium Term Financial Plan Assumptions	2019/20	2020/21	2021/22	2022/23	2023/24
Firefighter pay awards	2.00%	2.00%	2.00%	2.00%	2.00%
Support staff pay awards	2.00%	2.00%	2.00%	2.00%	2.00%
Inflation and Pensions	2.40%	2.00%	2.00%	2.00%	2.00%
Superannuation (to be funded locally)	2.00%	14.00%	14.00%	14.00%	14.00%
Cost Pressures £m	1.3	6.1	2.0	2.0	2.2
Total Budget requirement £m	75.1	81.2	83.2	85.2	87.4