

REPORT REFERENCE NO.	DSFRA/20/1
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	13 FEBRUARY 2020
SUBJECT OF REPORT	2020-21 REVENUE BUDGET AND COUNCIL TAX LEVELS
LEAD OFFICER	Director of Finance & Resourcing (Treasurer) and Chief Fire Officer
RECOMMENDATIONS	<p>(a) that the Committee consider the contents of this report in order to make a recommendation to the Fire Authority budget meeting that either:</p> <p>(i) the level of council tax in 2020-21 for a Band D property be set at £86.52, as outlined in Option A in this report, representing no increase over 2019-20, and that accordingly a Net Revenue Budget Requirement for 2020-21 of £76,219,700 be approved;</p> <p>OR</p> <p>(ii) that the level of council tax in 2020-21 for a Band D property be set at £88.24, as outlined in Option B in this report, representing a 1.99% increase over 2019-20, and that accordingly a Net Revenue Budget Requirement for 2020-21 of £77,276,000 be approved;</p> <p>(b) that, as a consequence of the decisions at (a) above:</p> <p>(i) the tax base for payment purposes and the precept required from each billing authority for payment of total precept of £53,156,102 (Option A) OR £54,212,834 (Option B), as detailed on Page 2 of the respective budget booklet, be approved;</p> <p>(ii) the council tax for each property bands A to H associated with the total precept as detailed in the respective budget booklet, be approved; and</p> <p>(iii) that the Treasurer's 'Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserve Balances', as set out at Appendix B to this report, be endorsed.</p>
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 2020-21 that would trigger a requirement to hold a Council Tax referendum is to be 2.0%. This report considers potential options A and B below for Council Tax in 2020-21:</p> <p>OPTION A – Freeze Council Tax at 2019-20 level (£86.52 for a Band D Property).</p>

	<p>OPTION B – Increase Council Tax by 1.99% above 2019-20 (increase of £1.72 pa to £88.24 for Band D Property).</p> <p>A budget book for each of these options is enclosed separately with the agenda for this meeting.</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 18 February 2020.</p>
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	Not applicable.
APPENDICES	<ul style="list-style-type: none"> A. Core Net Revenue Budget Requirement 2020-21. B. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances. C. DSFRA response to the Department of Communities and Local Government consultation document “Local Government Finance Settlement – Technical Consultation Paper”. D. BMG Report on Precept Consultation for 2020-21 Revenue Budget E. Report on Precept Consultation via Social Media
LIST OF BACKGROUND PAPERS	Nil.

1. FOREWORD AND INTRODUCTION

- 1.1. The draft budget for 2020-21 provides an opportunity to support reform of Devon and Somerset Fire and Rescue Service (the Service) now and in the future. In January 2020 a number of significant changes to the Service Delivery Operating Model were approved by the Authority which will better align resources to risk. Underpinning the Safer Together programme is the new On Call payment system (Pay for Availability) which is expected to improve recruitment, retention and ultimately the safety of our communities by improving availability of fire engines. The system will be more expensive and therefore this budget includes an investment in the On Call duty system.
- 1.2. Whilst the number of fire engines across the Service will reduce and some savings will be made as a result of the change programme, the investment of £0.850m made in to Prevention and Protection last year will continue, enabling more community and business safety activity.
- 1.3. The way we work is changing as is the way we deliver services to the public. We increasingly use a diverse group of staff to carry out tasks and no longer follow the traditional approach of using uniformed staff on inflexible contracts. We have therefore moved away from defining our staff by the type of contract they hold and have presented this budget according to the type of work done. This change should support the reduction of barriers between staff groups and will also make our purpose clearer by emphasising the importance of prevention and protection work.
- 1.4. 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 2020-21. The purpose of this report is to provide the necessary financial background for consideration to be given as to what would be appropriate levels of precept for the Authority.
- 1.5. 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.
- 1.6. On 19 December 2019, 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 2020-21. This is to be 2.0% which, if exceeded, would trigger the need to hold a referendum. 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.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2020-21

- 2.1. The provisional Local Government Finance Settlement for 2020-21 was announced on 19 December 2019, which provided local authorities with individual settlement funding assessment figures for one year only.
- 2.2. Table 1 overleaf provides details of the Settlement Funding Assessment (SFA) for this Authority which results in an increase in 2020-21 of 1.61% over 2019-20 and an overall reduction of 24.12% 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%
2018-19	22.618	-1.265	-5.30%
2019-20	21.961	-0.657	-2.91%
2020-21	22.319	0.358	1.63%
Reduction over 2015-16		-7.094	-24.12%

- 2.3. 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 2020-21. 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 2019 – 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 2019, MHCLG announced the referendum threshold to be applied in 2020-21 would reduce to 2.0% from 3.0% in 2019-20. Whilst this is disappointing given that Police and Crime Commissioner areas have been given the flexibility to adopt a £24 threshold in 2020-21 and that the Fire Sector bid for a £5 flexibility, the current referendum limit at least 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. Each 1% pay award for staff costs the Authority £0.589m and this budget proposal contains provision for a 2% pay award for all staff.

4. COUNCIL TAX AND BUDGET REQUIREMENT 2020-21

Council Tax

- 4.1. There is no offer of a Council Tax Freeze Reward Grant to those authorities that freeze or reduce Council Tax in 2020-21.

- 4.2. It is, of course, an Authority decision to set a level of Council Tax that is appropriate to its funding position. For 2020-21, this report considers two options A and B as below:
- **OPTION A** – Freeze Council Tax at 2019-20 level (£86.52 for a Band D Property);
 - **OPTION B** – Increase Council Tax by 1.99% above 2019-20 - an increase of £1.72 pa (14p a month) to £88.24 for Band D Property.
- 4.3. The Committee could decide to set any alternative level below 2%. Each 1% increase in Council Tax represents an 86p a year increase for a Band D property, and is equivalent to a £0.532m variation on the revenue budget. In relation to the referendum option, it is the Treasurer’s view that given the costs of holding a referendum (circa £2.3m), it is not a viable option for the Authority to consider a Council Tax increase in excess of the 2% threshold.
- 4.4. Due to an inflationary increase on government grant funding and increased Council Tax base, both council tax options would represent an increase to the overall budget.

TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – FUNDING 2020-21

	OPTION A Council Tax Freeze at £86.52	OPTION B Council Tax Increase of 1.99% to £88.24
	£m	£m
TOTAL FUNDING 2019-20	75.142	75.142
Increase in Formula Funding	0.272	0.272
Decrease in Retained Business Rates from Business Rate Retention System.	0.378	0.378
<u>Changes in Council Tax Precept</u>		
- increase in Council Tax Base	0.602	0.602
- resulting from an increase in Council Tax	-	1.057
- decrease in Share of Billing Authorities Council Tax Collection Funds	(0.174)	(0.174)
Net Change in precept income	0.428	1.485
TOTAL FUNDING AVAILABLE 2020-21	76.220	77.277
NET CHANGE IN FUNDING	1.078	2.135

Council Tax Base

- 4.5. The total increase in government funding of £0.272m is in line with inflation of 1.7% and comes after significant reductions amounting to 24.1% since 2015-16. The Service had 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 1.15%. The Authority's share of Council Tax collection fund surplus has decreased by £0.174m 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 2020-21. 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 2020-21

	£m	%
Approved Net Revenue Budget Requirement 2019-20	75.142	
PLUS Provision for pay and price increases (Pay award assumed 2%)	1.442	1.92%
PLUS Inescapable Commitments	0.696	0.93%
PLUS New Investment	3.510	4.67%
MINUS Changes to income	(0.447)	-0.59%
CORE SPENDING REQUIREMENT 2020-21	80.343	
INCREASE IN BUDGET OVER 2019-20 (£m)	5.201	6.92%
Funding adjustments for 2020-21	(1.744)	-2.32%
MINUS Savings	(1.323)	-1.76%

- 4.7. As outlined in the foreword to this paper, this is an investment budget designed to support reform of the Service. £3.510m of new investment opportunities have been identified which will be offset by ongoing savings, reduced capital allocation and a one-off use of reserves:
- £1.144m for Pay for Availability, the new On Call duty system; assuming that the system will be in place mid-way through the year, ongoing investment will be double the amount;
 - £0.872m for additional staff working on prevention and protection, particularly building safety following the report by Her Majesty's Inspectorate (HMICFRS) and the Hackitt review (post Grenfell);
 - £0.322m for operational staff to support prevention capability and the matrix model introduced in 2019-20;
 - £0.930m for professional and technical staff which includes investment in Health and Safety, Organisational Development and Fitness to support improvement against HMICFRS findings; and
 - £0.242m for revenue equipment needed to fit out the new Medium Rescue Pumps per the capital programme.

Budget Savings

- 4.8. As is indicated in Table 3, the Core Budget Requirement for 2020-21 (which includes provision for pay and inflation, inescapable commitments and new investment) has been assessed as £80.343m. 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 2020-21.

TABLE 4 – BUDGET SAVINGS 2020-21

REVENUE BUDGET SAVINGS	£m
Budget Management Savings – As in previous years the budget setting process has included the requirement for budget managers to scrutinise non-operational budget heads with a view to the identification of recurring savings. This process and challenge by managers has identified £0.118m of recurring savings relating to training following implementation of T4C and other minor variances	(0.106)
Authority Pensions – This budget line is subject to fluctuation in the number of Injury and Ill Health retirees anticipated during the year	(0.217)
Vacancy Margins – As a result of the current strategy to hold vacancies during phased implementation of the Safer Together plan	(1.000)
BUDGET SAVINGS (£m)	(1.323)

- 4.9. Whilst the Service is confident that savings of £1.323m can be delivered, under both Council Tax scenarios there will be a budget shortfall in the coming year. The recommendation is to utilise reserves to fund the gap in the short term until the Safer Together programme benefits are better understood. If Council Tax is frozen, the funding shortfall will increase from £1.743 to £2.800m. The shortfall is outlined in Table 5.

TABLE 5 – BUDGET SHORTFALL 2020-21

SUMMARY OF ADDITIONAL SAVINGS REQUIREMENT	OPTION A	OPTION B
Net change in funding over 2019-20	1.078	2.135
Increase in spending requirement since 2019-20	5.201	5.201
Savings requirement 2020-21	(4.123)	(3.066)
Less Budget savings already achieved	(1.323)	(1.323)
FUNDS REQUIRED TO BALANCE BUDGET	(2.800)	(1.743)

- 4.10. It is proposed that the Revenue Contribution to Capital is reduced if Council Tax is frozen, which will enable the Authority to set a balanced budget whilst the Safer Together programme is further refined to deliver additional 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 2020-21 which also gives an indication of the proposed programme and sources of funding over the next five 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. In the event of a 1.99% increase to Council Tax (Option B), the revenue contribution to capital expenditure will need to be reduced by £0.0577m in order to balance the budget, reducing the funding available to £2.037m.

- 4.13. Table 6 below outlines the requirement under each scenario to reduce the revenue contribution to capital and draw on the Budget Smoothing reserve in order to fund the Pay for Availability model – it must be noted that reserves can only be used once and so this is not a sustainable funding option.

TABLE 6

PROPOSALS TO BALANCE THE REVENUE BUDGET	OPTION A	OPTION B
Revenue Contribution to Capital – Reducing the budget for Revenue contribution to capital is considered within the context of the MTFP and Capital Affordability	(1.634)	(0.577)
Transfer from Reserves – in order to fund the Payment for Availability system for On Call Staff, the Budget Smoothing Reserve is utilised	(1.167)	(1.167)
TOTAL BUDGET SAVINGS (£m)	(4.124)	(3.067)

5. MEDIUM TERM FINANCIAL PLAN

- 5.1. Given that the 2020/21 provisional Local Government Settlement is a one 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. The Government is indicating it will meet the pensions cost beyond 2020-21 and so the Medium Term Financial Plan (MTFP) assumes this will be funded. The approach taken to developing the plans and underlying assumptions are outlined in the MTFP document, which is elsewhere on the agenda.

- 5.2. The MTFP financial modelling tool has assessed a likely ‘base case’ scenario in terms of savings required over the period 2020-21 to 2023-24. Chart 1 provides an analysis of those forecast savings required in each year.

CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE) 2020 TO 2024 (BASE CASE) - £MILLIONS



- 5.3. Chart 1 overleaf illustrates that further savings will be required beyond 2020-21 to plan for a balanced budget over the next three years to 2023-24. Should the Authority decide to freeze Council Tax in 2020-21 (Option A) and the following three years then the MTFP forecasts that further savings of up to £7.8m need to be planned for.

Authority Plan 2020 onwards

- 5.4. This budget report proposes a balanced budget for the next financial year 2020-21 including proposals as to how budget savings can be achieved.
- 5.5. Looking beyond 2020-21 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 Service Delivery Operating model by the Authority.

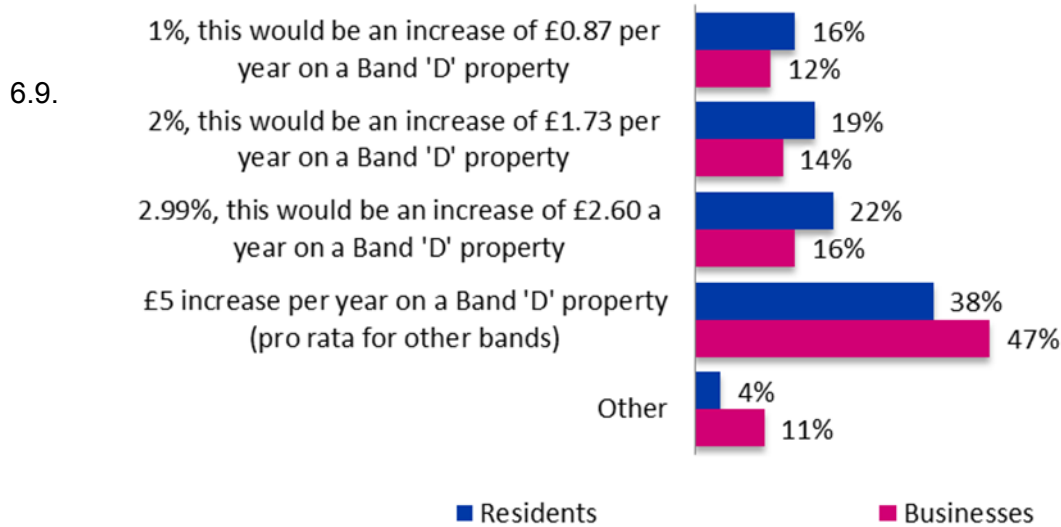
6. PRECEPT CONSULTATION 2020-21

- 6.1. Section 65 of the Local Government Finance Act (1992) requires precepting authorities to consult non-domestic ratepayers on proposals for expenditure.
- 6.2. 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.
- 6.3. The consultation process ran throughout November and December 2019 and involved:
- 6.3.1 A telephone survey of 400 business and 400 residents;
 - 6.3.2 Use of an online survey promoted via social media and other DSFRS communication channels
- 6.4. The full results of the telephone survey and online survey can be found in Appendices D and E.

Results from the Telephone Survey

- 6.5. Over three in five (62%) businesses agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2020/21, while a fifth (19%) disagreed that it is reasonable for them to do so, resulting in a net agreement of +43%.
- 6.6. Agreement was consistent by Local Authority District (LAD), industry sector and gender. However, by LAD, agreement was significantly higher than average amongst businesses in Devon (68%) and significantly lower amongst businesses in Somerset (54%).
- 6.7. Over three in five (68%) residents agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2020/21, while 16% disagreed, giving a net agreement of +52%.
- 6.8. Agreement was consistent by LAD, gender and age. Those respondents who had used a service in the last 12 months were more likely to agree than those who had not (80% cf. 64% 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 2020/21)



f those respondents who agreed that a Council Tax increase would be reasonable 63% of businesses and 60% residents would support an increase of 2.99% or above.

6.10. 78% of businesses and 84% residents felt that the Service provides value for money.

6.11. Additional questions were included to determine satisfaction levels; overall 70% of businesses and 66% of residents said they were satisfied with the Service. Levels of satisfaction significantly increased amongst those who had used a service from 70% amongst those who have not used a service to 95%.

Results from the Online Survey

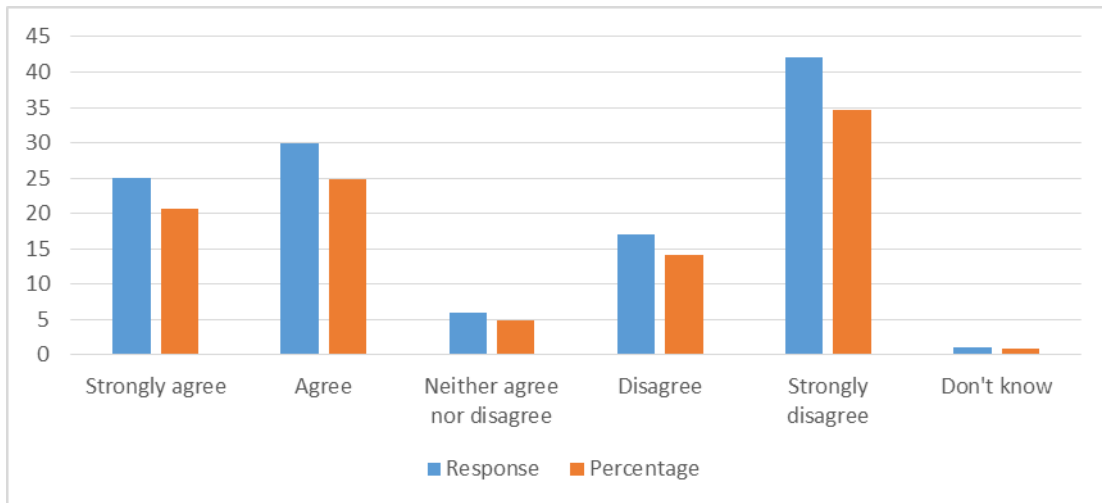
6.12. The online survey was available from 31 October -21 December 2019. The consultation was promoted through our website, press releases and adverts on Facebook and Twitter.

6.13. In that period, a total of 155 responses were received. 121 fully completed the questionnaire and 34 partially completed it. As only five of these responses represented the business sector, the results have not been separated.

6.14. This year's consultation exercise follows an earlier 3 month large scale public consultation process, which the Service undertook in the summer to gauge views on the proposed new Service Delivery Operating Model. It is important to note that the range of responses received through this earlier consultation, have influenced a number of respondents' viewpoints when compared to last year's responses.

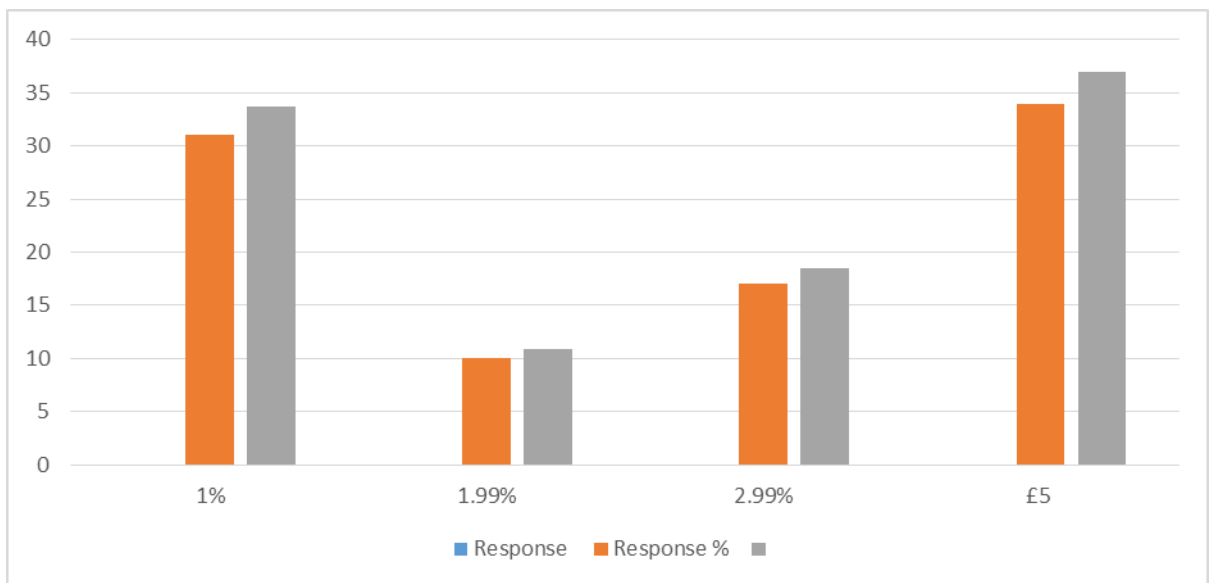
6.15. The results outlined in Chart 2 indicate that almost 35% of respondents strongly disagree that the Authority should consider increasing its charges, as opposed to approximately 21% who strongly agree. This is a significant change to last year's response where 70% of respondents agreed the Authority should consider increasing its charges.

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



6.16. The results outlined in Chart 3, indicate that 37% of respondents are in support of a £5 increase and that in total, 55% of respondents support an increase of 2.99% or above.

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



6.17.

he results indicate that over half of respondents (56%) agree that the Service provides value for money.

6.18. Additional questions were asked to ascertain whether respondents had interacted with the Service. The results indicate that 56% of respondents had not interacted with the Service in the last 12 months, however, (22%) had attended community events and almost a third of respondents (27%) had attended a public consultation event for the Safer Together programme.

6.19. In contrast with the phone survey, only 47% of respondents said they were satisfied or very satisfied with the service provided.

Survey Conclusion

- 6.20. The results of the consultation indicate that the majority of respondents feel it would be reasonable for the Authority to consider increasing its precept for 2020-21. Those who agreed that it would be reasonable to consider an increase in the Council Tax precept were predominantly in favour of an increase of 2.99% or above.
- 6.21. Both businesses and residents agree that the Service provides value for money and were satisfied with the service provided.

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

- 7.1. 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.

8. SUMMARY

- 8.1. The Authority is required to set its level of revenue budget and Council Tax for 2020-21 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.
- 8.2. 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 Authority, to be held on the 18 February 2020.

AMY WEBB

Director of Finance and Resourcing (Treasurer)

APPENDIX A TO REPORT RC/20/1

	2020/2021	
£'000	£000	%
Approved Budget 2019-20		75,142
<u>Provision for pay and prices increase</u>		
Grey Book Pay Award (assume 2.0% from July 2020)	940	
Green Book Pay Award (assume 2% from April 2020)	237	
Prices increases (assumed 1.7% CPI from April 2020)	220	
Pensions inflationary increase (tracks CPI - 1.7%)	45	
		1,442 1.9%
<u>Funding Adjustments</u>		
Revenue Contribution to Capital	-577	
Reserve transfers	-1,167	
		-1,744
<u>Inescapable Commitments</u>		
Support Staff Increments	148	
Light vehicles - lease change over costs & vehicle usage costs	119	
Increase in minimum revenue provision emanating from capital	34	
ICT Service Delivery	395	
Unforeseen budget requirements		696
<u>New Investment</u>		
On Call Pay for availability	1,144	
Prevention and Protection Staff	872	
Operational staff including control	322	
Professional and Technical Staff	930	
Vehicle equipment linked to capital programme	242	
		3,510
<u>Income</u>		
Decrease Red One Contribution target	5	
Decrease Co-responder Activity	-1	
Claim back Apprenticeship Levy - Apprentice firefighter scheme	-167	
Section 31 grants	-284	
		-447
<u>Anticipated savings</u>		
Vacancy margin	-1,000	
Vacancy margin - whole-time staff		
Pensions - anticipate reduced Ill Health/ Injury leavers	-217	
Fire Safety School training & seminars	-64	
Cumulative minor budget variances	-42	
		-1,323
CORE BUDGET REQUIREMENT		77,277

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 2020-21 BUDGET

The net revenue budget requirement for 2020-21 has been assessed as £77.277m (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 Integrated Risk Management Plan and the Fire and Rescue Plan. It should be emphasised that these assessments are being made for a period up to the 31st March 2021, in which time external factors, which are outside of the control of the authority, may arise which will cause additional expenditure to be incurred. The most significant example of this is the increase in employers pension costs following the GAD Valuation and the unknown funding shortfall as a result, plus employer cost pressures arising from the unlawful application of transitional pensions protections. For example, the majority of On Call 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.

Local government and the fire sector are entering a period of significant uncertainty over funding and cost pressures going forward. It is possible that further cuts of 5% in real terms may be made to fire funding which when combined with changes to the Business Rates Retention scheme and the Relative Needs Assessment Reviews could result in significant changes to available resources. Unfunded pension schemes and legal challenges over pension terms represent a significant risk to the Authority going forward. It is therefore vitally important that resourcing and investment decisions are made which minimise risks going forward to enable the Authority to be as resilient as possible in future years.

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 five year period covering the years 2020-21 to 2024-25. 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 2020-21 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO CHANGE

Budget Head	Budget Provision 2020-21 £m	RISK AND IMPACT	MITIGATION
Wholetime Pay Costs	31.4	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 £0.470m 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 2% has been factored in to the budget which represents a prudent approach.
On Call Pay Costs	15.8	A significant proportion of costs associated with on call 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.	Using the budget smoothing reserve to offset pay for availability costs in year one, use of reserve can be extended if necessary
Fire-fighter's Pensions	2.5	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 an allowance has been made for a potential overspend on this budget
Insurance Costs	0.9	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.	General Reserve
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.	General Reserve
Treasury Management Income	(0.2)	As a result of the economic downturn in recent years, and the resultant low investment returns, the ability to achieve the same levels of income returns as in previous years is diminishing. The uncertainty over future market conditions means that target investment returns included in the base budget could be at risk.	The target income has been set at a prudent level of achieving only a 0.7% 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	(0.8)	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £0.6m 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 and is dependent on the ability of Red One Ltd to generate income.	Budget monitoring processes will identify any potential shortfall and management informed so as any remedial action can be introduced as soon as possible. A provision for doubtful debts is available to protect the Authority from potential losses.
Capital Programme	10.7	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.
Revenue Contribution to Capital	2.0	£0.3m of the Contribution is dependent on maintaining trading income levels, if these are not achieved the capital budget will need to be reduced by this amount	Capital programme and strategy, £21.7m Capital Reserve
Business Rates	(1.4)	There is a high degree of uncertainty over levels of Retained Business rates income and the method of allocation between funding and revenue grants in future years.	There is a specific reserve of £1.8m for budget smoothing which could be utilised to smooth in year changes.

THE ADEQUACY OF THE LEVEL OF RESERVES

Total Reserve balances for the Authority as at April 2019 is £38.8m made up of Earmarked Reserves (committed) of £33.4m, 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 6.9% of the total revenue budget, or 25 days of Authority spending, the figure is subject to a risk assessment annually.

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.

The Authority’s Reserves Strategy is reviewed annually and is available on the website www.dsfire.gov.uk.

CONCLUSION

It is considered that the budget proposed for 2020-21 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 and Resourcing (Treasurer)