

<b>REPORT REFERENCE NO.</b>	<b>RC/21/1</b>
<b>MEETING</b>	<b>RESOURCES COMMITTEE</b>
<b>DATE OF MEETING</b>	<b>10 FEBRUARY 2021</b>
<b>SUBJECT OF REPORT</b>	<b>2021-22 REVENUE BUDGET AND COUNCIL TAX LEVELS</b>
<b>LEAD OFFICER</b>	<b>Director of Finance and Resourcing (Treasurer) and Chief Fire Officer</b>
<b>RECOMMENDATIONS</b>	<p><b>(a) <i>that the Committee considers the contents of this report in order to make a recommendation to the Fire Authority budget meeting that either:</i></b></p> <p><b>(i) <i>that the level of council tax in 2021-22 for a Band D property be set at £88.24, as outlined in Option A in this report, representing no increase over 2020-21, and that accordingly a Net Revenue Budget Requirement for 2021-22 of £73,149,800 be approved;</i></b></p> <p><b>OR</b></p> <p><b>(ii) <i>that the level of council tax in 2021-22 for a Band D property be set at £90.00, as outlined in Option B in this report, representing a 1.99% increase over 2020-21, and that accordingly a Net Revenue Budget Requirement for 2021-22 of £74,222,400 be approved;</i></b></p> <p><b>(b) <i>that, as a consequence of the decisions at (a) above:</i></b></p> <p><b>(i) <i>the tax base for payment purposes and the precept required from each billing authority for payment of total precept of £53,777,027 (Option A) OR £54,849,642 (Option B), as detailed on Page 2 of the respective budget booklet, be approved;</i></b></p> <p><b>(ii) <i>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</i></b></p> <p><b>(iii) <i>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.</i></b></p>

	<p>(c) <b>that, if Option B is agreed, the Authority considers as outlined in paragraphs 3.8 to 3.9 of this report:</b></p> <p>(i) <b>that £0.415m of funding is made available to fund an additional 12 development firefighter posts;</b></p> <p><b>OR</b></p> <p>(ii) <b>that the requirement to transfer in from the budget smoothing reserve be reduced by £0.415m.</b></p>
<b>EXECUTIVE SUMMARY</b>	<p>It is a legislative requirement that the Authority sets a level of revenue budget and Council Tax for the forthcoming financial year by the 1 March each year. The Secretary of State has announced that the Council Tax threshold to be applied in 2021-22 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 2021-22:</p> <p><b>OPTION A – Freeze Council Tax at 2020-21 level (£88.24 for a Band D Property).</b></p> <p><b>OPTION B – Increase Council Tax by 1.99% above 2020-21 (increase of £1.74 pa to £90.00 for Band D Property).</b></p> <p>The Committee is asked to consider the implications associated with each option, with a view to making a recommendation of one option to the full Authority budget meeting on 19 February 2021.</p>
<b>RESOURCE IMPLICATIONS</b>	As indicated in the report.
<b>EQUALITY IMPACT ASSESSMENT</b>	Not applicable.
<b>APPENDICES</b>	<p>A. Core Net Revenue Budget Requirement 2021-22.</p> <p>B. Revenue budget by directorate</p> <p>C. Statement of the Robustness of the Budget Estimates and the Adequacy of the Authority Reserves and Balances.</p> <p>D. DSFRA response to the Department of Communities and Local Government consultation document “Local Government Finance Settlement – Technical Consultation Paper”.</p> <p>E. DJS Report on Precept Consultation for 2021-22 Revenue Budget</p> <p>F. Report on Precept Consultation via Social Media</p>
<b>BACKGROUND PAPERS</b>	Nil.

## **1. FOREWORD AND INTRODUCTION**

- 1.1. The draft budget for 2021-22 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 better aligned 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 is more expensive and therefore savings released from the Service Delivery Operating Model have been re-invested in the On Call duty system.
- 1.2. The investment of £0.850m made in to Prevention and Protection in 2019-20 will continue, enabling more community and business safety activity.
- 1.3. Due to the economic impact of the Coronavirus pandemic on our communities, overall funding will reduce in 2021-22 and reserves will be needed to balance the budget. The government has announced its intention to freeze public sector pay awards next year and so this has alleviated some pressure on the Authority's finances.
- 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 2021-22. 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 17 December 2020, 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 2021-22. 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 2021-22**

- 2.1. The provisional Local Government Finance Settlement for 2021-22 was announced on 17 December 2020, which provided local authorities with individual settlement funding assessment figures for one year only.

- 2.2. Table 1 below provides details of the Settlement Funding Assessment (SFA) for this Authority which results in an increase in 2021-22 of 0.16% over 2020-21 and an overall reduction of 24.00% since 2015-16:

<b>TABLE 1 – SETTLEMENT FUNDING ASSESSMENT (SFA)</b>			
	<b>SFA</b>	<b>SFA Reduction</b>	
	<b>£m</b>	<b>£m</b>	<b>%</b>
2015-16	29.413		
2016-17	26.873	-2.540	-8.64%
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%
2021-22	22.354	0.035	0.16%
<b>Reduction over 2015-16</b>		<b>-7.054</b>	<b>-24.00%</b>

- 2.3. In addition to the settlement figures reported in Table 1 above, the Authority has been awarded a share of a £85m Rural Services Delivery Grant which is only available to the most sparsely populated rural areas. The award is £445k for 2021-22.
- 2.4. There are other Section 31 grant funds, allocated to reduce the impact of local collection shortfalls, which are included in the revenue budget as income. The Authority is eligible annually for amounts to offset business rates reliefs at £1.5m for 2021-22.
- 2.5. As part of a suite of measures to support local authorities to offset impacts of the Coronavirus pandemic, an award of £0.970m has been made against increased costs of the Local Council Tax Support Scheme and an estimate of £2.856m is included as the Authority's share of National Non Domestic Rate grants made to businesses because of the pandemic.
- 2.6. These grants will be paid as a Section 31 grant (not in base funding which has been significantly impacted by COVID 19) and are therefore included as income within the draft budget proposed in this report.

### **COUNCIL TAX AND BUDGET REQUIREMENT 2021-22**

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

- 3.1. It is, of course, an Authority decision to set a level of Council Tax that is appropriate to its funding position. For 2021-22, this report considers two options A and B as below:
- **OPTION A** – Freeze Council Tax at 2020-21 level (£88.24 for a Band D Property);

- **OPTION B** – Increase Council Tax by 1.99% above 2020-21 - an increase of £1.74 pa (15p a month) to £90.00 for a Band D Property.

- 3.2. The Authority could decide to set any alternative level below 2%. Each 1% increase in Council Tax represents an 87p a year increase for a Band D property, and is equivalent to a £0.538m 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.
- 3.3. Due to the economic impacts of Coronavirus on the Council Tax base, surplus and Business Rate income, both council tax options would represent a decrease to the overall budget available.

**TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – FUNDING 2021-22**

	OPTION A	OPTION B
	Council Tax Freeze at £88.24	Council Tax Increase of 1.99% to £90.00
	£m	£m
<b>TOTAL FUNDING 2020-21</b>	<b>77.277</b>	<b>77.277</b>
Increase in Formula Funding	0.035	0.035
Decrease in Retained Business Rates from Business Rate Retention System.	(3.158)	(3.158)
<u>Changes in Council Tax Precept</u>		
- Decrease in Council Tax Base	(0.436)	(0.436)
- resulting from an increase in Council Tax	-	1.073
- decrease in Share of Billing Authorities Council Tax Collection Funds	(0.569)	(0.569)
<b>TOTAL FUNDING AVAILABLE 2020-21</b>	<b>73.149</b>	<b>74.222</b>
<b>NET CHANGE IN FUNDING</b>	<b>(4.127 )</b>	<b>(3.055 )</b>

\*Section 31 grants are available to offset funding reductions per paragraph 2.4-2.5

### **Council Tax Base**

- 3.4. The total increase in government funding of £0.035m is in line with inflation of 0.3% and comes after significant reductions amounting to 24.0% since 2015-16. The Service had forecast an increase in Council Tax receipts of 1.20% arising from house building in the area, although there has been a significant decrease of 0.80%. The Authority's share of Council Tax collection fund surplus has decreased by £0.569m (now in deficit and this figure reflects a three year spread) which reflects a significant decline in the rate of Council Tax collection by districts.

### **Retained Business Rates**

- 3.5. The funding available from business rates has fallen significantly due to the pandemic, with the local share reducing by 56% or £3.158m. As outlined in paragraph 2.5, it is estimated that a grant of £2.856m will flow from billing authorities to offset against 2020-21 losses although this figure is yet to be confirmed.

### **Net Budget Requirement**

- 3.6. Table 3 below provides a summary of the Core Budget Requirement for 2021-22. A breakdown of the more detailed items included in this draft budget is included in Appendix A of this report.

**TABLE 3 – SUMMARY OF REVENUE BUDGET REQUIREMENT 2021-22**

	£m	£m
<b>Net Revenue Budget 2020-21</b>		<b>77.277</b>
PLUS Provision for pay and price increases (Pay award assumed 0%)	0.205	
PLUS funding adjustments	0.655	
PLUS Inescapable Commitments	0.151	
PLUS New Investment	0.566	
MINUS Changes to income	(4.269)	
<b>DECREASE in budget requirement over 2020-21</b>		<b>(2.693)</b>
<b>Core spending requirement 2021-22</b>		<b>74.584</b>
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 includes cashable savings from the Safer Together programme	(0.209)	
Authority Pensions – This budget line is subject to fluctuation in the number of Injury and Ill Health retirees anticipated during the year	(0.153)	
<b>Savings identified (£m)</b>		<b>(0.362)</b>
<b>Net spending requirement 2021-22</b>		<b>74.222</b>

- 3.7. As outlined in the foreword to this paper, this budget is designed to support reform of the Service by maintaining investment in the Pay for Availability system at £1.442m. This is half of the annual cost if all stations take up the new system, but teams are being transitioned as and when all members want to take up the offer. Elsewhere on this agenda is a request to earmark funding from the under spend in 2020-21 arising from the delay of P4A roll out, which could then be used in 2021-22 were more than 50% of stations to transition.
- 3.8. As reduced funding will be available for the coming financial year and there will likely be further restrictions in coming years, officers have restricted requests for investment opportunities to:
- An optional £0.415m for 12 development firefighter posts
  - £0.151m to introduce Microsoft 365, which will support smarter working
- 3.9. Members are asked to consider investing in an increased establishment for a three year period for 12 development firefighters year on year to support a strategic workforce planning which forecasts the following issues:
- risk of short-notice retirements (due early 2022 when pension scheme remedies are implemented)
  - support for service delivery resilience in particular in fire protection
  - increased opportunities to diversify the workforce
- 3.10. If the Authority does not approve the option to invest in development firefighter posts, £0.415m less reserve funding will be needed to balance the 2021-22 revenue budget.

***Balancing the budget***

- 3.11. As is indicated in Table 3, the Revenue Budget Requirement for 2021-22 has been assessed as £74.222m. This is more than the amount of funding available under Option A and therefore cuts or additional funding need to be identified in order that a balanced budget can be set.

**TABLE 4 – PROPOSALS TO BALANCE THE BUDGET 2021-22**

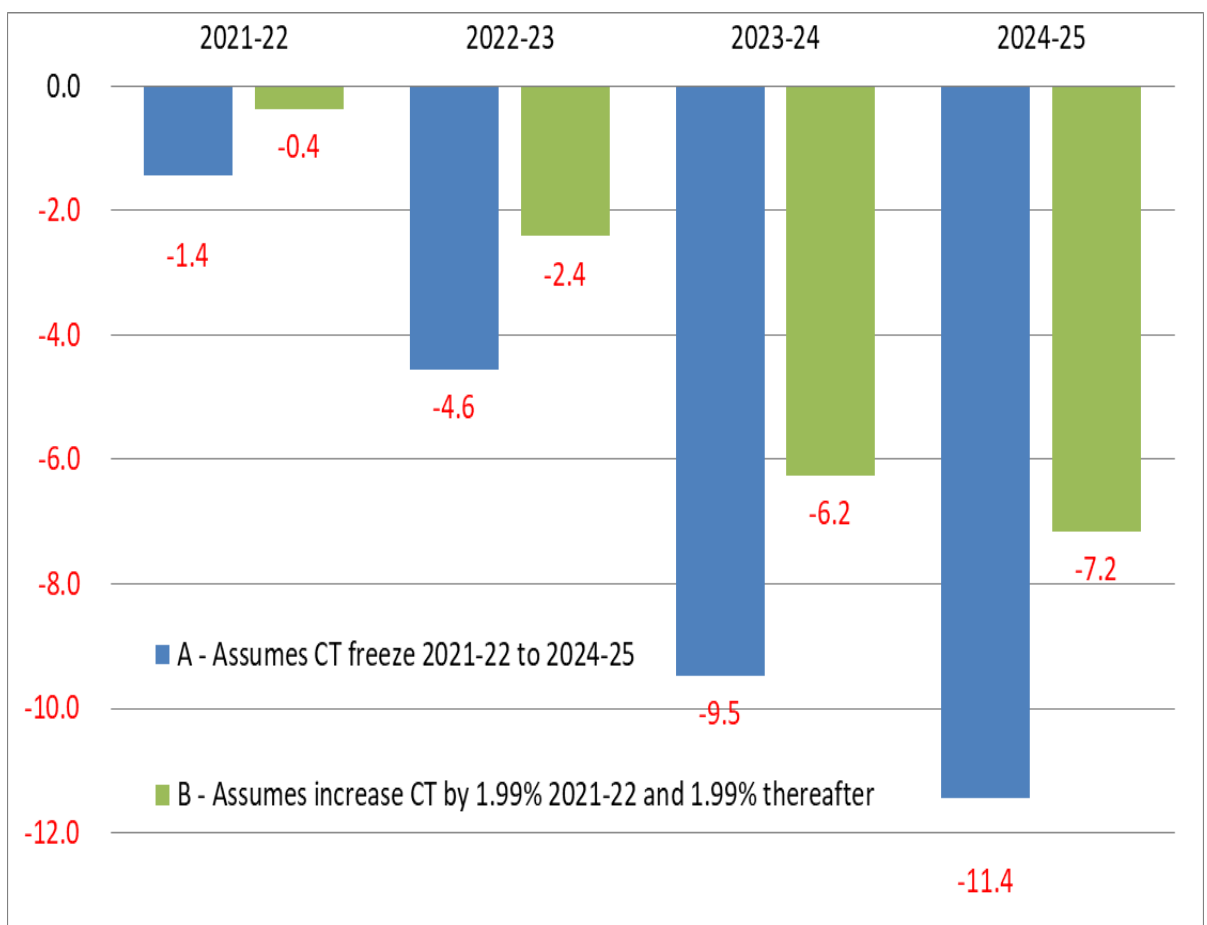
<b>PROPOSALS TO BALANCE THE REVENUE BUDGET</b>	<b>OPTION A £m</b>	<b>OPTION B £m</b>
Funding Available	73.149	74.222
LESS Net spending requirement 2021-22	74.222	74.222
<b>Shortfall</b>	<b>(1.073)</b>	<b>(0.000)</b>
Revenue Contribution to Capital – Reducing the budget for Revenue contribution to capital is considered within the context of the MTFP and Capital Affordability	0.000	0.000
Transfer from Reserves – in order to balance the budget, the budget smoothing reserve will be used	(1.073)	0.000
<b>Total</b>	<b>(1.073)</b>	<b>0.000</b>

- 3.12. Whilst the Service is confident that the budget can be balanced if Council Tax is increased, there will be a budget shortfall of £1.073m in the coming year if it is frozen. The recommendation is to utilise reserves to fund the gap in the short term until a budget efficiency plan is developed.
- 3.13. There is some risk attached to this strategy, as this proposal will draw down against the budget smoothing reserve, meaning it will not be available to meet future budget pressures.

**4. MEDIUM TERM FINANCIAL PLAN**

- 4.1 Given that the 2021-22 provisional Local Government Settlement is a one year settlement, the future funding position is less certain. The impacts of the Coronavirus pandemic have been significant both in terms of costs and economic impact and therefore a considerable funding gap is likely. The approach taken to developing the plans and underlying assumptions are outlined in the MTFP document, which is elsewhere on the agenda.
- 4.2 The MTFP financial modelling tool has assessed a likely ‘base case’ scenario in terms of savings required over the period 2021-22 to 2024-25. Chart 1 provides an analysis of those forecast savings required in each year.

**CHART 1 – FORECAST BUDGET SAVINGS REQUIREMENT (CUMULATIVE)  
2021 TO 2025 (BASE CASE) - £MILLIONS**





4.3 Chart 1 illustrates that further savings will be required beyond 2021-22 to plan for a balanced budget over the next three years to 2024-25. Should the Authority decide to freeze Council Tax in 2021-22 (Option A) and the following three years then the MTFP forecasts that total savings of up to £11.4m need to be planned for.

#### ***Authority Plan 2021 onwards***

4.4 This budget report proposes a balanced budget for the next financial year 2021-22 including proposals as to how budget savings can be achieved.

4.5 Looking beyond 2021-22 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.

4.6 The strategic approach to deliver the required savings is being developed and an efficiency review has been initiated and will focus on the following priority areas:

- How resources are being utilised; productivity of our staff and assets;
- Digitising and streamlining services to make them more efficient; and
- Evidencing value for money of our services;

### **5. PRECEPT CONSULTATION 2021-22**

5.1. Section 65 of the Local Government Finance Act (1992) requires precepting authorities to consult non-domestic ratepayers on proposals for expenditure.

5.2. 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.

5.3. The consultation process ran throughout November and December 2020 and involved:

5.3.1 A telephone survey of 399 business and 402 residents;

5.3.2 Use of an online survey promoted via social media and other DSFRS communication channels

5.4. The full results of the telephone survey and online survey can be found in Appendices E and F.

#### ***Results from the Telephone Survey***

5.5. 62% of businesses agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2021-22, while 14% disagreed that it is reasonable for them to do so, resulting in a net agreement of +48%.

5.6. 66% of residents agreed that it is reasonable for the Authority to consider increasing its Council Tax charge for 2021-22, while 11% disagreed, giving a net agreement of +55%.

**Chart 2: Level of increase that would be reasonable (Those respondents agreeing that it is reasonable for DSFRS to consider increasing its Council Tax charge for 2021-22)**



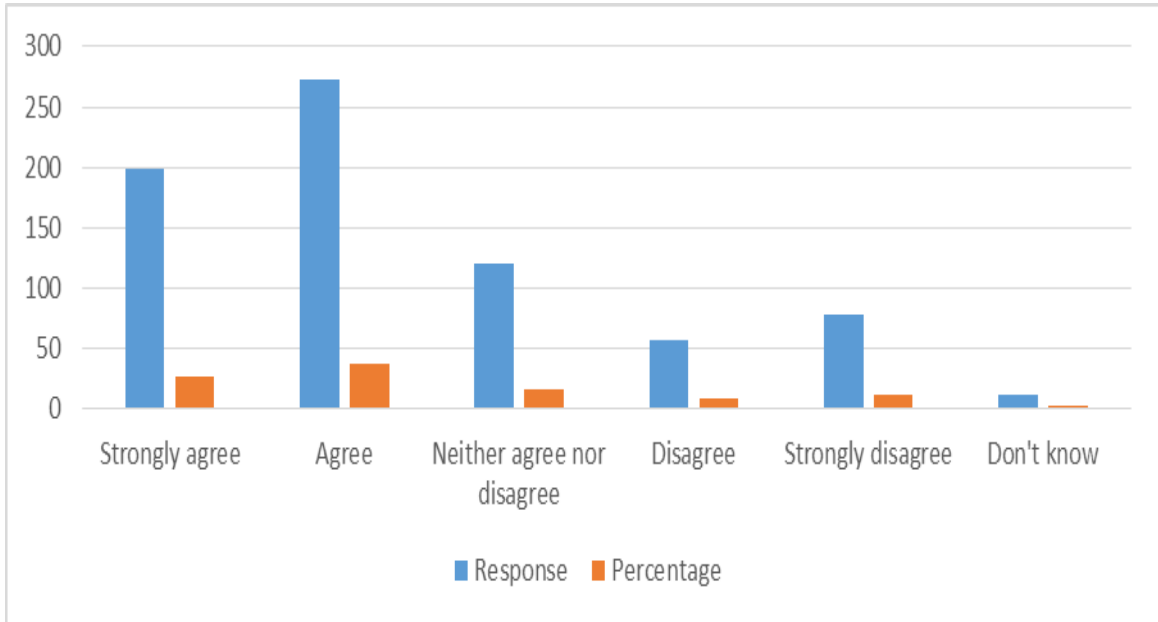
- 5.7. Of those respondents who agreed that a Council Tax increase would be reasonable, 62% of businesses and 61% residents would support an increase of 1.99% or above.
- 5.8. 80% of businesses and 85% residents felt that the Service provides value for money.
- 5.9. Additional questions were included to determine satisfaction levels; overall 76% of businesses and 77% of residents said they were satisfied with the Service. Perceived reputation of the Service is strong, with results shown in the appendices.

**Results from the Online Survey**

- 5.10. The online survey was available from 6 November – 18 December 2020. The consultation was promoted through our website, press releases and adverts on Facebook and Twitter.
- 5.11. In that period, a total of 737 responses were received (up from 121 last year). As only thirteen of these responses represented the business sector, the results have not been separated.

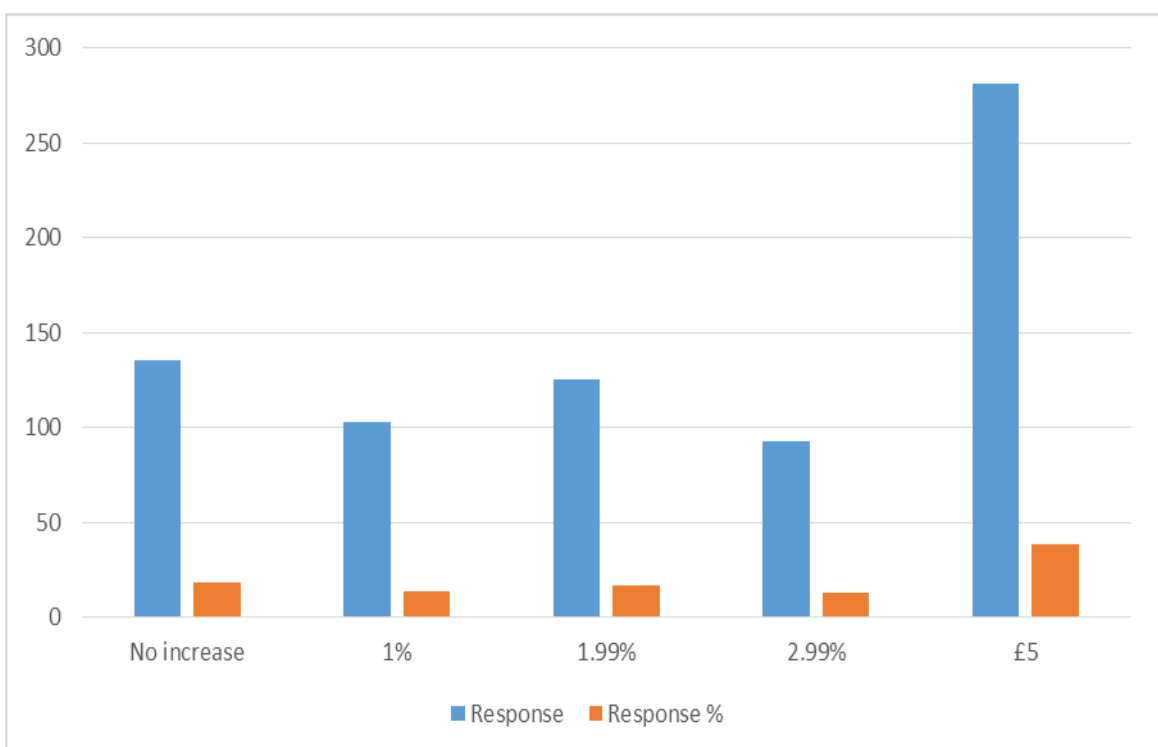
5.12. The results outlined in Chart 3 indicate that almost 64% of respondents agree that the Authority should consider increasing its charges, as opposed to 18% who disagree, giving a net agreement of +46%.

Chart 3: Question 1 Results of agreement to consider increasing the precept



5.13. The responses indicate that the most popular option overall is a £5 increase with 281 respondents choosing this (38% of everyone who completed the survey). Just over two thirds (67.6%) of respondents considered a 1.99% increase or higher reasonable. 238 people opted for either no increase or 1% increase.

Chart 4: Question 2 Results of options to increase the precept



- 5.14. The results indicate that 71% agree that the Service provides value for money.
- 5.15. 72% of respondents were satisfied or very satisfied with the service provided, and increase of 25% over last year, when results were likely to have been influenced by the Safer Together consultation.

### ***Survey Conclusion***

- 5.16. 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 2021-22. 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 1.99% or above.
- 5.17. Both businesses and residents agree that the Service provides value for money and were satisfied with the service provided.

## **6. STATEMENT ON ROBUSTNESS OF BUDGET ESTIMATES AND THE ADEQUACY OF THE LEVELS OF RESERVES AND BALANCES**

- 6.1. 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.

## **7. SUMMARY**

- 7.1. The Authority is required to set its level of revenue budget and Council Tax for 2021-22 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.
- 7.2. 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 19 February 2021.

**AMY WEBB**  
Director of Finance and Resourcing (Treasurer)

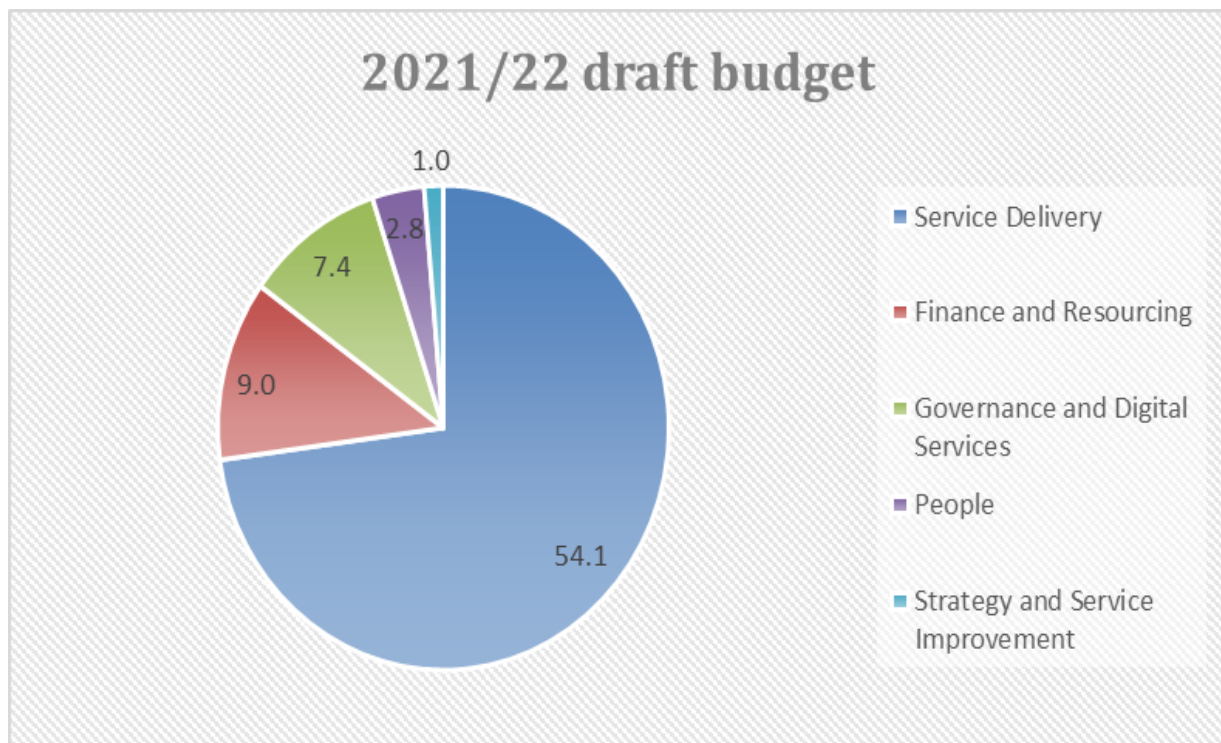
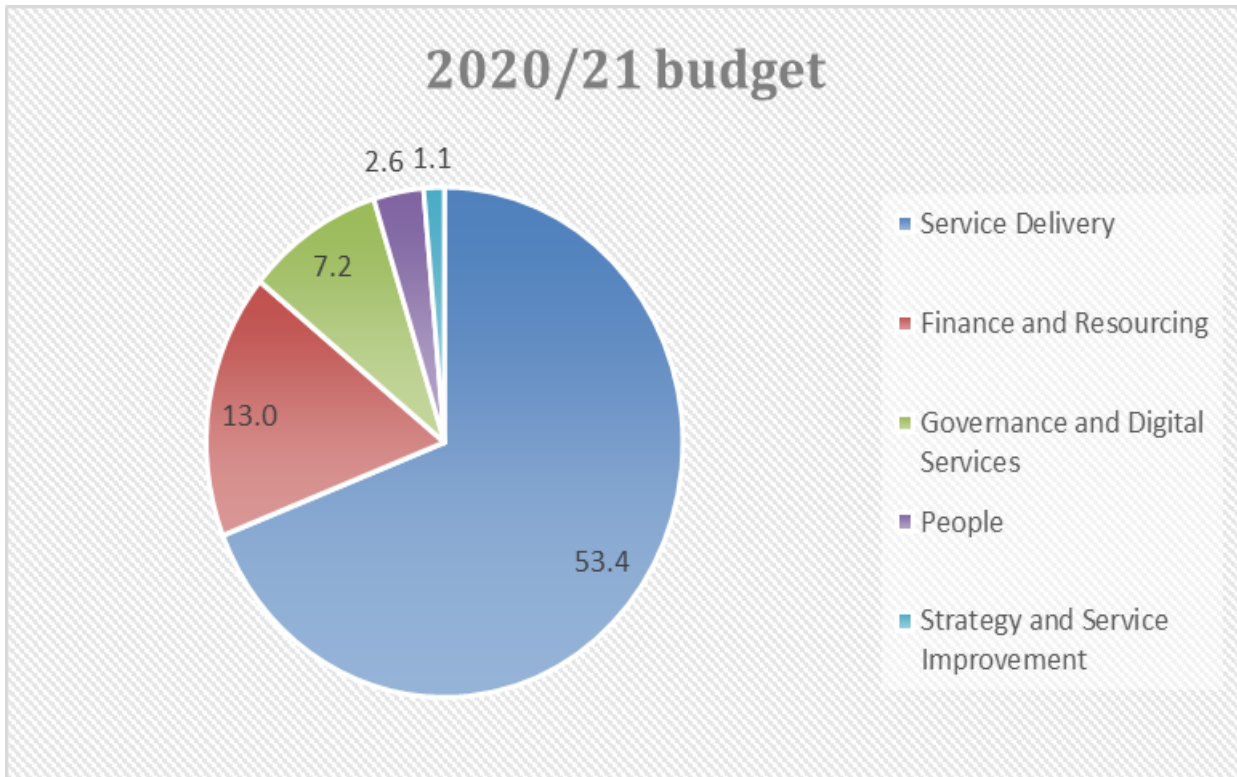
**LEE HOWELL**  
Chief Fire Officer

APPENDIX A TO REPORT RC/21/1

	£'000	2021/22 £000	%
<b>Approved Budget 2020-21</b>		77,277	
<b><u>Provision for pay and prices increase</u></b>			
Grey Book Pay Award (assume 0% from July 2021)	0		
Green Book Pay Award (0.75% not budgeted for in 2020-21)	101		
Prices increases (assumed 0.7% CPI from April 2020)	87		
Pensions inflationary increase (tracks CPI - 0.7%)	17		
		205	0.3%
<b><u>Funding Adjustments</u></b>			
Revenue Contribution to Capital	0		
Transfers from Reserves	655		
		655	
<b><u>Inescapable Commitments</u></b>			
Support Staff Increments	151		
		151	
<b><u>New Investment</u></b>			
On Call Pay for availability	0		
12 x Development Fire Fighters	415		
ICT Service Delivery (Office 365 licence)	151		
		566	
<b><u>Income</u></b>			
Decrease in investment interest	101		
Section 31 grants	-4,370		
		-4,269	
<b><u>Anticipated savings</u></b>			
Pensions - anticipate reduced Ill Health/ Injury leavers	-153		
Cumulative budget savings	-209		
		-362	
<b>Transfer from Reserves</b>			
<b>CORE BUDGET REQUIREMENT</b>		74,222	

APPENDIX B TO REPORT RC/21/1

Proposed Revenue Budget breakdown by directorate 2020-21 and 2021-22.  
NOTE: assumes 1.99% increase and investment in development FF



**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 2021-22 BUDGET**

The net revenue budget requirement for 2021-22 has been assessed as £74.222 (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 31<sup>st</sup> March 2022, 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 Coronavirus pandemic. 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 and lockdowns 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 2021-22 to 2025-26. 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 2021-22 ASSESSMENT OF BUDGET HEADINGS MOST SUBJECT TO CHANGE**

Budget Head	Budget Provision 2021-22 £m	RISK AND IMPACT	MITIGATION
Service Delivery staff costs	51.8	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. No provision for pay awards have been made in the 2021-22 budget.	In establishing a General Reserve an allowance has been made for a potential pay award. The payment for availability reserve will support those stations which transition to the new pay model in year.
Fire-fighter's Pensions	2.4	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 Pensions 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	This budget has been reduced since 2020-21 in recognition of new ways of working and the green agenda	General Reserve
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 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	(0.8)	Whilst the authority has only limited ability to generate income, the budget has been set on the basis of delivering £0.8m 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.



<b>Capital Programme</b>	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.
<b>Revenue Contribution to Capital</b>	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
<b>Business Rates</b>	(4.5)	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. £2.9m of this has been estimated grant income to offset funding losses yet to flow through from 20-21 business rates losses.	General Reserve

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

Total Reserve balances for the Authority as at April 2020 is £38.8m made up of Earmarked Reserves (committed) of £33.5m, 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 the pandemic 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](http://www.dsfire.gov.uk).

## **CONCLUSION**

It is considered that the budget proposed for 2021-22 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)**