APPENDIX A TO REPORT DSFRA/22/10

Introduction

The 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 together with major roads and two extensive lengths of coastline. The current budget (2021/22) of £74.2m is used to resource 83 fire stations, 112 fire engines in addition to numerous special appliances. Around 1,800 staff deliver fire prevention and protection activity, respond to emergency calls and incidents and provide professional support functions. The Authority is progressing well in making a significant investment in our On Call service. The COVID-19 pandemic is already increasing pressure on public service finances and its impacts are likely to be felt for some years to come.

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 the Authority's finances is really important when making decisions about the future and this document should be read alongside the Authority's Fire and Rescue Plan, Integrated Risk Management Plan, Safer Together Programme and Reserves Strategy.

Funding and Income

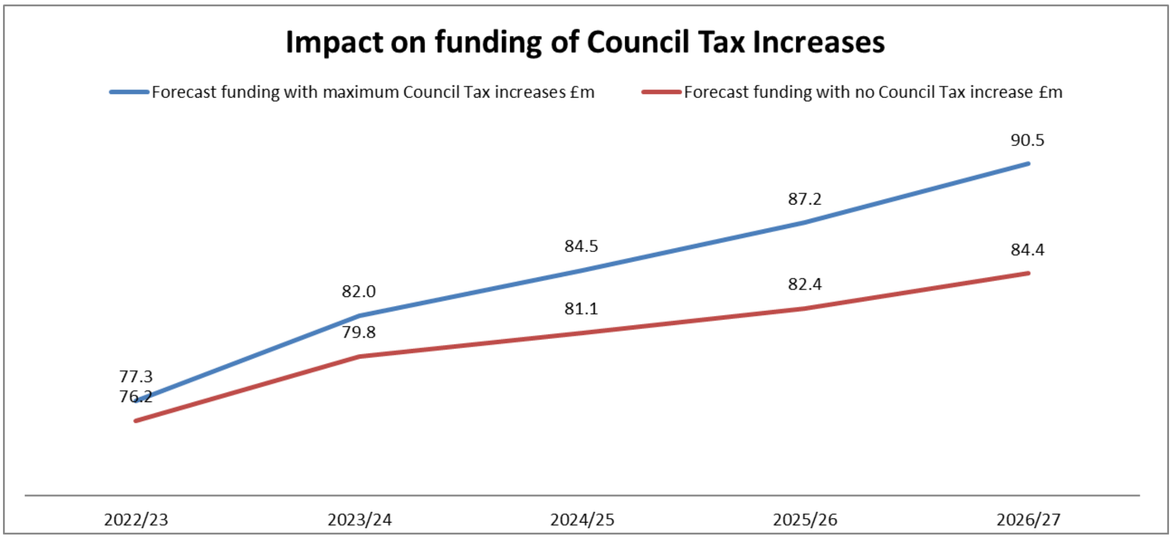
The Authority has three main sources of revenue funding; Council Tax Precept, National Non-Domestic Rates Scheme and Revenue Support Grant. Additionally, income from one-off grants, recharges and services is offset against our expenditure in order to reach the "net revenue budget" in each year.

Building the Medium-Term Financial Forecast

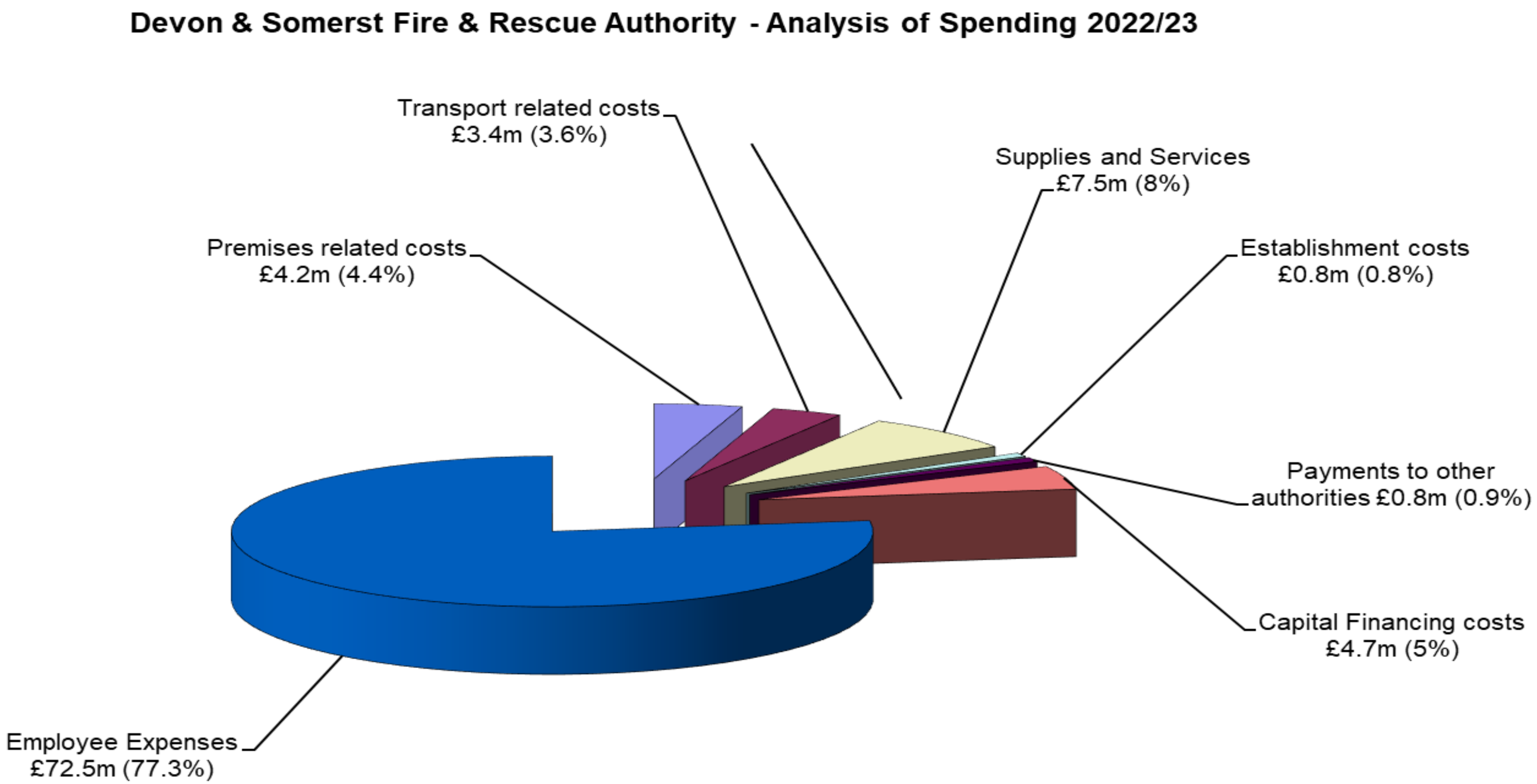
The forecast in this document represent a "base case" scenario which has been built on the latest information from government, sector knowledge and experience of finance officers. In the Base case:

- government grants rise with inflation, pay and inflation remain steady, pension costs are minimal and Council Tax losses are minimised. This is what we consider to be the most likely scenario.
- The Base case is presented to the Authority with options over Council Tax and where savings targets are fed back into the budget setting process each year.

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 rise to £6.1m by 2026/27.



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 77.3% 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 & Somerst Fire & Rescue Authority - Analysis of Spending 2022/23
Transport related costs
£3.4m (3.6%)
Supplies and Services
£7.5m (8%)
Premises related costs
£4.2m (4.4%)
Establishment costs
£0.8m (0.8%)
Payments to other authorities £0.8m (0.9%)
Capital Financing costs
£4.7m (5%)
Employee Expenses
£72.5m (77.3%)

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:

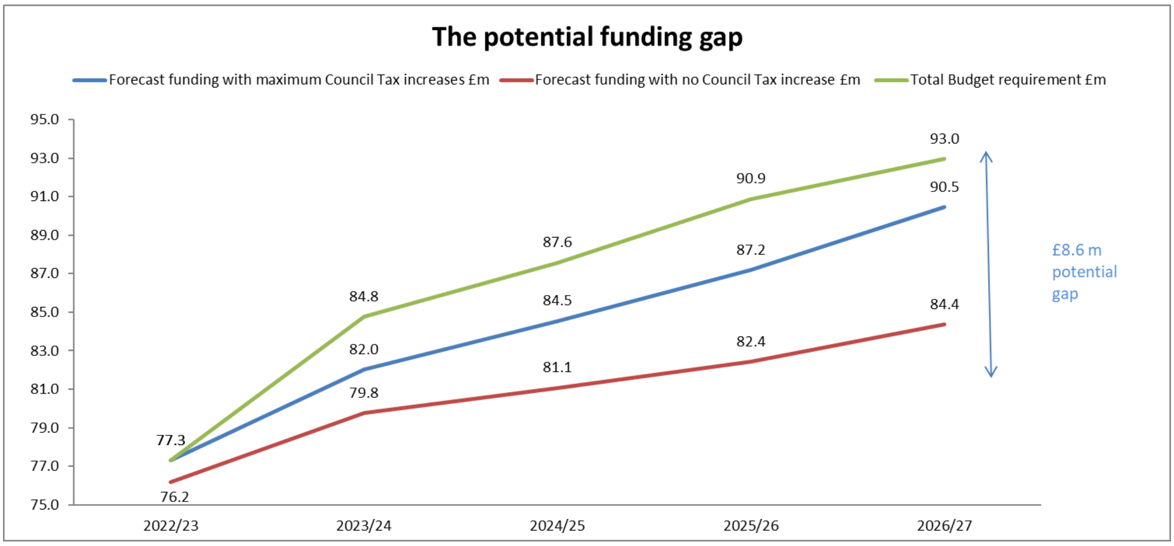
- Pay increases
- Inflation
- Pension increases
- Reduction to one-off grant income
- Capital investment

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 £8.6m if Council Tax is frozen, which means that we would need to deliver cumulative savings or cost reductions of £29.7m by 2026/27. If council tax is increased in line with the assumed referendum limits set by HM Treasury, this falls to £2.5m by 2026/27 meaning that we will need to deliver cumulative savings of £12.1m by 2026/27

The Authority has an excellent history of achieving savings targets, with over £14m saved over the five years to 2021/22 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 the Service, plans have been approved to future proof the organisation and deliver budget savings. The Fire and Rescue Plan describes what needs to change (and why) and together with the Integrated Risk Management Plan this has informed the development of the Safer Together Programme. The changes to the Service Delivery Operating Model agreed in January 2020 represent an investment rather than any overall savings as a result of implementing On Call Pay for Availability. The programme is being 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 was on the following four work streams.

- Service Delivery Operating Model
- The Digital Strategy
- Management of Fleet and Equipment
- Learning and Development

Meeting the funding gap

Following on from efforts to realign resources to risk, focus will now be placed on efficiency of the Service through:

- Development of a revised Estates Strategy and rationalisation of buildings
- Smarter working and continued Digital Transformation
- Reviewing whether supporting functions are achieving value for money and exploring alternative delivery models
- Delivery of the Green DSFRS Environmental Strategy
- Exploring opportunities to improve the productivity of our staff and assets

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 identify further 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 14 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 2022/23 is subject to a maximum of 1.99% 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). NOTE: These figures have been impacted due to COVID-19

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 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. A one year settlement was made for 2022/23. Beyond that period assumptions have to be made as to the level of grant income to be received.

Medium Term Financial Plan Assumptions	2022/23	2023/24	2024/25	2025/26	2026/27
Council Tax Precept	1.99%	1.99%	1.99%	1.99%	1.99%
Council Tax Base	0.00%	1.00%	1.60%	1.60%	1.60%
Council Tax Surplus	100.00%	0.01%	0.00%	0.00%	101.00%
National Non-Domestic Rates	0.00%	0.00%	2.00%	2.00%	2.00%
Revenue Support Grant	1.20%	1.60%	1.70%	1.90%	1.90%
Total Impact on net funding £m	**3.1**	**4.7**	**2.5**	**2.6**	**3.3**
Forecast funding with maximum Council Tax increases £m	**77.3**	**82.0**	**84.5**	**87.2**	**90.5**
Forecast funding with no Council Tax increase £m	**76.2**	**79.8**	**81.1**	**82.4**	**84.4**

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 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 20% of expenditure on employee costs so variations to rates can have a significant impact. Estimated increases are included in the Medium-Term Financial Plan as a cost pressure.

Capital Programme. Significant purchases of assets costing £20,000 or more with a useful life beyond one year are classified as Capital expenditure. Can include purchasing vehicles and equipment, building new stations, extensions and major refurbishment, as well as ICT infrastructure.

Medium Term Financial Plan Assumptions	2022/23	2023/24	2024/25	2025/26	2026/27
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	2.00%	2.00%	2.00%	2.00%	2.00%
Cost Pressures £m	**3.1**	**7.5**	**2.8**	**3.3**	**2.1**
Total Budget requirement £m	**77.3**	**84.8**	**87.6**	**90.9**	**93.0**