Item 4 – Appendix B

DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Dorset and Wiltshire Fire Authority Medium Term Finance Plan

2016-2020

February 2016

Contents

1. Introduction

1.1 This Medium Term Finance Plan (MTFP) brings together the new Dorset and Wiltshire Fire and Rescue Authority's medium term aims and objectives with its investment strategy. We feel that 'medium term' should be three to five years; long enough to support the strategic intent set out in the Community Safety Plan but short enough to enable anticipation of the main impacts. The plan embraces the ongoing development and implementation of the Authority's Integrated Risk Management Plan (IRMP).

1.2 The current financial context of the Authority is set by the funding outcomes from the Government's most recent spending review. The Joint Autumn Statement and Spending Review 2015, announced in November 2015, outlined the funding strategy for the period 2016/17 to 2019/20. The impact of this announcement, nationally and locally, is discussed on pages 8 and 10, along with a profile of how Dorset and Wiltshire compares with other fire and rescue authorities.

1.3 Both previous authorities have a long history of sound financial management and good governance and have delivered on their promises to achieve value for money. The new Authority plans to continue this approach moving forward. How we intend to use the Combination as a catalyst to achieve this is outlined on pages 11 to 13.

1.4 In developing our financial plans for 2016/17 onwards we have identified a number of budget issues and carried out a sensitivity analysis on some key areas such as the impact of varying levels of pay award. These issues and risks are reflected on pages 14 to 19.

1.5 Our medium term projections bring together all of this work and reflect how our aspirations from the Community Safety Plan translate into our revenue and capital budget requirements. Table 9 on page 20 shows our budget projections up to 2019/20.

1.6 Our capital investment needs for the next 5 years are shown in Section 6, pages 23 to 24. This shows our draft capital investment requirements, how we plan to finance this investment and the impact on the revenue budget.

1.7 The final section of the Plan looks at our reserves and balances and how we plan to use them over the next few years to support the Authority's revenue budget and capital investment needs.

1.8 This is a dynamic document, integral to our financial management and will be updated in response to national, regional and local issues when these affect the Authority's financial position.

2. Community Safety Plan

2.1 The Community Safety Plan sets out our future direction and explains what we plan to do to help to change and save lives throughout Bournemouth, Dorset, Poole, Swindon and Wiltshire. We are now a fire and rescue service operating across a very large geographical area and we need to work in new ways with all of our partners, to improve what we do together. In short, we will be using every available opportunity to fundamentally rethink the way we do business by embracing new technology and maximise more efficient ways of working and learning. As a new Service we believe we can and must do more to protect our communities.

2.2 We will continue to provide a comprehensive response service, but our prevention and protection agenda needs to be front and centre stage. We want to work in some key areas where traditionally you would not expect fire and rescue services to have an involvement, such as identifying those who may be cold in their homes during winter and support and signpost them to other agencies to take action; work with public health partners to reduce avoidable illnesses; working with families and individual young people to support them in making safer and healthier choices. We feel that this is important as we are already working with these vulnerable groups and partners cannot do everything. We want to use our brand and trusted relationships to make a real different to deliver our vision of being ‘passionate about changing and saving lives’

2.3 To support our vision, we have set ourselves four priorities

Making safer and healthier choices

Being there when you need us

Protecting you and the environment from harm

Making every penny count

Making safer and healthier choices

2.4 ***Context and challenge***

2.5 We believe that we can help people to live safe, healthy and more independent lives for longer. We cannot do this alone and we will be working with our partners to identify opportunities where we can help to provide advice, support and education. We are committed to protecting the most vulnerable in our communities and, as a consequence, we will also make sure that ‘safeguarding’ is placed at the core of everything we do. Our prevention and education initiatives are only effective because of the excellent work that is delivered by our dedicated and professional staff and volunteers. This makes sure that we can offer the best quality advice and service to you and maximise the positive impact we have.

2.6 ***What we are doing:***

- Expand home-safety initiatives to improve the wellbeing and independence of vulnerable people

- Work with local authorities and other partners to create a stronger, more co-ordinated approach to supporting families, children and young adults to achieve their potential and help to strengthen our communities

- Set up local multi-agency safety teams and volunteer networks to link resources and strengthen the support we provide to our communities

- Work with our existing and new partners to use a wider range of information and new technology to support people to live longer in their homes and avoid illness

Protecting you and the environment from harm

2.7 ***Context and challenge***

2.8 In order to make sure that people are kept safe, we have a responsibility in law to enforce the requirements of the Regulatory Reform (Fire Safety) Order 2005. We believe that deaths and serious injuries caused by fire in regulated premises are preventable, if the right measures are taken. We will work with business to make sure that proportionate measures are put in place and do this, where we can, before enforcing fire safety standards. We will also work with business to continue to contribute towards the economic growth of our communities. If we need to we will prosecute. We will offer technical advice and identify opportunities to promote the use of sprinklers and other fire engineering solutions to help achieve the best safety record of any fire and rescue service.

2.9 ***What we are doing:***

- Work with local authorities and other partners to create a more co-ordinated approach to reporting safeguarding issues and new and possible threats to our residents and communities

- Provide more support for our communities as they develop local emergency resilience plans, so we are all better prepared when major disruption happens

- Expand local resilience planning and, with our partners, explore similar approaches to enforcing regulations and managing risk to our communities

- Make sure we understand our unique heritage and environment, so that we can reduce damage and loss when things go wrong

- Provide better support for local businesses so they can meet their legal fi re-safety obligations and add to the economic growth of our communities

Being there when you need us

2.10 ***Context and challenge***

2.11 We need to make sure that we respond quickly and professionally to limit distress, harm and economic loss if you ever need us. This is done so firefighters consider critical risk information before they attend an incident. This helps to keep them safe, but also allows us to respond effectively and reduce the harm caused by a fire. To make sure that crews respond quickly, we also need to have effective and efficient emergency call management and mobilisation arrangements in place and our Service Control Centre in Potterne, near Devizes in Wiltshire, is constantly looking to improve. We also need to make sure that we have fire engines that are available when we need them and we keep up to date with operational technical and equipment developments. Clearly, we cannot do everything on our own. The current dangers posed by terrorists, as well as climate changes, which are resulting in the increased risk of flooding, cannot be managed by just one fire service. We are therefore working with surrounding fire services to create common operational procedures, which will help manage incidents where crews need to work together.

2.12 We are also working as part of the Network Fire Control Service Partnership (NFCSP), where fire controls from Devon and Somerset and Hampshire, work with ourselves, to coordinate how we respond to incidents and also help in case one fire control has problems with equipment failures for example. This makes sure that you get a quick response should you ever need us.

2.13 Finally, and very importantly, we will support and work closely with Dorset and Wiltshire Local Resilience Forums (LRF) to try and reduce the impact of any major emergency by careful planning and effective exercises.

2.14 ***What we are doing:***

- Deliver a comprehensive, risk based review to make sure we provide a balanced, efficient and effective response

- Do more work with our partners to improve arrangements for handling calls, responding to calls and using assistive technology

- Provide a wider range of medical emergency response, supported by multi –agency teams that link to local community safety and volunteer networks

- Learn from operational and community risks, to make sure we make the right response based decisions for our staff, the communities and the environment

Making every penny count

2.15 ***Context and Challenge***

2.16 It is clear that the public sector, in general, will continue to be subject to severe budgetary restrictions, which we will need to manage. Looking after every single penny is both what a good organisation should do as a matter of course, but also makes sure that we can continue to supply the level of service that our communities have come to expect and value. We have focused a large effort in making sure that we spend every penny wisely and that we can demonstrate real value for this money. We are also committed to making sure that we have the minimum numbers of staff employed to support our operational teams and that we maximise the number of people delivering direct front line services, whether that is through uniformed or non-uniformed staff .

2.17 ***What we are doing:***

- A Leadership culture centred on our values and maximising talent

- Increased accountability and transparency in everything we do

- A single approach to ways of working

- Maximum benefits from our technology and information

- Putting value for money at the heart everything we do

2.18 For further information please have a look at our Community Safety Plan which is available on our website at www.dwfire.gov.uk. This gives more detail on our plans for the next three years, the projects and activities that we are undertaking and our performance indicators and targets.

3. Financial Context

3.1 National context

3.1.1 The national spending controls for local government up to 2015/16 were fixed by the Spending Review 2010 (CSR10) and Spending Review 2013 (CSR13).

3.1.2 Years 1 and 2 (2011/12 and 2012/13) of the CSR10 period showed headline national average reductions for fire authorities of 5.8% (2011/12) and 0.7% (2012/13). Funding totals covering years 3 and 4 showed headline national average reductions for fire authorities of 8.7% (2013/14) and 7.4% (2014/15). The settlement for 2013/14 was the first one provided under the new business rates retention scheme, a new way of funding local government.

3.1.3 For 2015/16, the final year of this Spending Review period, the headline national average funding reduction for fire authorities was a further 8.5%. Dorset's reduction was 9% and Wiltshire's 8.7%, both above average.

3.1.4 The Chancellor published the Joint Spending Review and Autumn Statement 2015 on 25 November 2015. This signalled further reductions in funding for local authorities, covering the period 2016/17 to 2019/20. The detail of these funding reductions was provided in the Provisional Local Government Finance Settlement delivered on 17 December 2015. For fire authorities, comparing 2019/20 to 2015/16, the average reduction in funding across all fire authorities (excluding London) is 21.7%. For combined fire authorities, such as Dorset and Wiltshire, the average reduction is 23.1%, and Dorset and Wiltshire's actual reduction is 27.1%. This reduction includes a 61.8% reduction in revenue support grant funding as overall funding moves further towards full funding from local business rates.

3.2 Impact on Dorset and Wiltshire

3.2.1 The impact on Dorset and Wiltshire of these national funding changes is shown in Table 1:

Table 1: Settlement Funding Assessment

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m	£m	£m
Baseline funding	9.13	9.31	9.49	9.57	9.76	10.04	10.36
Revenue support grant	13.73	12.01	9.95	8.07	5.70	4.49	3.80
Settlement funding assessment	**22.86**	**21.32**	**19.44**	**17.64**	**15.46**	**14.54**	**14.16**

3.2.2 You can see from the table that the Governments Settlement Funding Assessment for Dorset and Wiltshire is reduced by some £8.7m over the period from 2013/14 to 2019/20.

3.2.3 The Government argues that the impact of these funding reductions is much less than this, when you take into account the full funding resources available to local government, by publishing a Core Spending Power calculation for each local authority, fire authority and police and crime commissioner. The details of this calculation for Dorset and Wiltshire, for the period up to 2019/20, are shown in the following extract from DCLG's published figures.

Table 2: Government Assessment of Core Spending Power

CORE SPENDING POWER					
Dorset and Wiltshire Fire					
Core Spending Power of Local Government					
	2015-16 (adjusted)	2016-17	2017-18	2018-19	2019-20
	£m	£m	£m	£m	£m
Settlement Funding Assessment	19.426	17.636	15.460	14.536	14.160
Council Tax	34.176	35.153	36.337	37.598	38.941
Rural Services Delivery Grant	0.009	0.012	0.021	0.030	0.039
Core Spending Power	**53.612**	**52.802**	**51.818**	**52.165**	**53.140**
Change over the Spending Review period (£ millions)					-0.5
Change over the Spending Review period (% change)					-0.9%

3.2.4 The calculation of Core Spending Power is based on the assumption that funding from council tax will continue to increase in the period up to and including 2019/20. The Government has estimated the level of council tax funding based on the following assumptions:

i) applying the average annual growth in the council tax base between 2013-14 and 2015-16 throughout the period to 2019-20; and

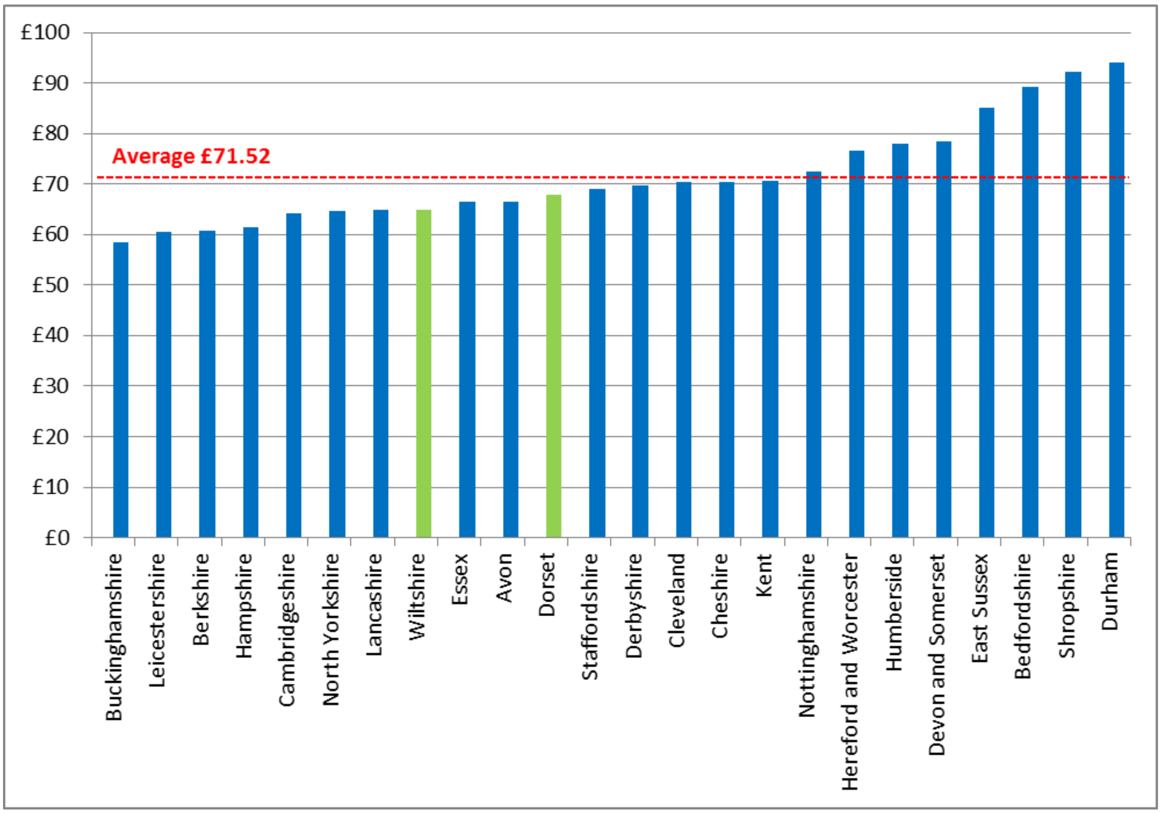
ii) assuming that local authorities increase their Band D council tax in line with the OBR's forecast for CPI for each year (which is an annual average of 1.75%) throughout the period to 2019-20.

3.3 Financial standing

3.3.1 Dorset and Wiltshire have both traditionally been low spending authorities. However, we have also suffered from being low funded authorities as well, receiving much lower than average funding from central government, compared to other fire authorities.

3.3.2 The low level of funding inevitably places pressure on levels of council tax but again both Dorset and Wiltshire's council tax has remained well below the average for combined fire authorities. For 2015/16 Dorset's Band D council tax figure was £67.86 and Wiltshire's was £64.88, compared to a national average of £71.52 (see Chart 1).

Chart 1: Band D Council Tax 2015/16 (all Combined Fire Authorities)



4. Efficiency and Value for Money

4.1 We will use the combination process to put value for money at the heart of our governance arrangements. As part of establishing the new Service, we will adopt the following principals:

- Review the way we formally delivered our services; share and adopt good practice and maximise our future efficiency, effectiveness and economy
- Eliminate unnecessary bureaucracy and make the best use of technology.
- Rationalise the use of our estate through robust asset management including exploring use of shared premises.
- Ensure that procurement decisions are business led and focused on whole life costs
- Seek more from our contracts and the quality of goods and services provided.
- Pursue greater economies of scale and synergy by maximising our partnership opportunities
- Seek external funding and partnership opportunities in order to support our priorities

4.2 During the lifetime of this plan, we intend to drive value efficiency and value for money from the following perspectives.

- Embedding strong corporate governance
- Harmonising non station based resourcing
- Maximising technology and mobile working
- Progressing the concept of One public estate
- Integrated risk management planning – ensure our available operational resources are best aligned to community risks

4.3 **Embedding strong corporate governance.** We are establishing a new approach to corporate governance and financial management. In support of this, we have adopted new policies and procurement, new contract procedural arrangements and harmonised our financial management system. We are fundamentally re-engineering all departments including appointing new auditors. These new frameworks, systems and relationships will need to be understood by all our managers and embedded within the new Service. A key focus for the coming years is to instil and embed the value for money principles and ensure that they are understood and being fully applied.

4.4 **Harmonising non-station based resourcing**. The key focus for the combination has been securing savings from non-station based personnel. Rationalising the strategic leadership team will deliver annual savings of £350k, with an additional £2.4m pa saving arising from the flexi-duty officer rota, establishing a new Service Control Centre and delivering other technical management savings. In addition, a single organisational staffing structure with a single pay and grading system has been agreed and will be transitioned to over the next three years. We anticipate that this will not only place the new Service is a safe, strong position but also yield around £1m annual savings from the new staffing structure and around £0.8m pa from other corporate savings.

4.5 **Maximising technology and mobile working.** The combination process has now created the 4th largest Combined Fire Authority (by budget) in England. The new Service must now operate across a very large geographical area with a much larger population. Rural road networks and restrictive public transport are a key challenge for the new Service. To avoid wasteful and unnecessary travel, we are seeking to invest in a new philosophy of more mobile and flexible ways of working. This efficiency drive has been assisted by financial support from the Department for Communities and Local Government's transformation grant which helped us to invest in a modernised and harmonised ICT infrastructure. We have worked with local partners including Wiltshire Council to establish a new headquarters in Salisbury at the Five Fivers Health and Wellbeing Centre. This new facility will allow staff and our key partners such as the police, health and local authorities to operate from a single building. This will become a first stage enabler of this new way of working for our staff, managers and key partners. Over the coming years we will be investing in new management approaches and new technology to maximise our productivity and reduce unnecessary travel and expenditure. Aligned to this we will also be seeking to review key management processes to make them less paper based; more electronically enabled and more collaborative with our key partners. Together this will help us reduce vehicle purchase and maintenance costs; travel costs; improve our carbon footprint; maximise productive time and reduce the manual handling of data and management information.

4.6 **One public estate.** We are currently undertaking a fundamental review of our estate. We are doing this for two principal reasons. Firstly we want to ensure that we have a comprehensive, prioritised and value for money led approach to our future maintenance programme. Secondly we want to further identify and open up opportunities for sharing our estate with the police, local authorities, health and other partners. Currently, we have fully shared facilities at a number of our properties including those in Lyme Regis, Mere, Poole, Portland, Salisbury and Tisbury and have informal community/ partnership access at most other fire stations. The 'fit for purpose' review we are currently undertaking will allow us to further exploit new opportunities for maximising our estate and strengthen our key partnerships with the police forces and others. It will also be used to inform and build upon our integrated risk management planning helping the new Service secure and maximise further partnership opportunities.

4.7 **Integrated risk management planning.** We are undertaking a comprehensive review of the integrated risk management process. The creation of a new integrated plan will cover the following areas:

- *IRMP Methodology*: This will concentrate on aligning the two existing approaches into one
- *Fire Cover Review*: This will consider how risks may change in the future, so that we can review the locations of our fire stations and whether they are fit for purpose, including a review of our response standards and what type of fire engines we have
- *Duty Systems review*: This will consider the existing operational duty systems and in particular options for improving the efficiency of crewing wholetime fire engines.

- *Retained Duty System (RDS)*: This will consider how best we manage our on-call firefighters in the future and how we can increase the numbers we have

- *Special appliance and skills review*: This will consider our Special appliance requirements, where they are and how we crew them and our co-responding role

- *Firefighter Safety*: This focus area will consider Firefighting media; firefighting techniques; fire appliances, equipment and personal protective equipment

4.8 The business case for combination was driven by the need to deliver a safe, strong and sustainable fire and rescue service. The combination of the two former Combined Fire Authorities will deliver an estimated £4m-4.5m of annual savings by 2018/19. A further £1.5m pa savings will be delivered through a comprehensive review of crewing arrangements. We are currently on track to deliver these savings.

5. Budget 2016/17 and Medium Term Forecast

5.1 Government Funding

5.1.1 The Provisional Local Government Finance Settlement details for 2016/17 were published on 17 December 2015. They show the Authority's Settlement Funding Assessment for 2016/17 to be £17.636m. This includes Revenue Support Grant funding of £8.069m and a Baseline Funding Level, under the Business Rates Retention Scheme, of £6.567m. The table below shows the breakdown and comparison to the two individual settlements received by Dorset and Wiltshire for 2015/16. The Final Settlement details are expected to be published in early February.

Table 3: Breakdown of total government funding for 2016/17

Element of funding	Revenue Support Grant	Baseline Funding Level	Total Funding
2016/17 Total government funding	**£8,068,914**	**£9,567,203**	**£17,636,117**
Dorset Fire Authority	£5,349,284	£5,193,305	£10,542,589
Wiltshire and Swindon Fire Authority	£4,598,234	£4,294,830	£8,893,064
2015/16 Total government funding	£9,947,518	£9,488,135	£19,435,653

5.1.2 In actual cash terms our total Settlement Funding Assessment for 2016/17 has reduced by £1.8m or 9.3%. The average reduction across all combined FRAs is 7.6%, with reductions ranging from 5.1% (Humberside) to 10.4% (Shropshire).

5.1.3 In the Final Business Case for the Combination we had forecast that government funding would reduce by 5.5% year on year from 2016/17 to 2019/20. The Provisional Settlement details also included an "offer" to local government for a 4 year funding settlement. For this Authority this "offer" details further funding cuts of 12.3% in 2017/18, 6% in 2018/19 and 2.6% in 2019/20. Overall our Settlement Funding Assessment will have reduced from £19.436m in 2015/16 to £14.160m in 2019/20. This represents a cash reduction of £5.276m or 27.1%.

5.1.4 The terms of governments "offer" of a 4 year settlement were not made clear when the Provisional Settlement was announced in December 2015. In order to access the "offer" authorities will need to have efficiency plans in place but the consultation document has no details confirming the exact arrangements. Consultation on the proposals concluded on 15 January 2016 and we expect to see the government's response when the Final Settlement is announced in early February 2016.

5.1.5 The Provisional Settlement did not include details of specific revenue grants for FRAs, paid as Fire Revenue Grant. For 2015/16 Dorset and Wiltshire were allocated combined funding totalling £548k towards the Firelink communications system and to support new dimensions assets. We have assumed a similar level of funding for 2016/17.

5.2 **Council Tax and Local Referendums**

5.2.1 The Localism Act 2011 abolished council tax capping powers and introduced the concept of council tax referendums to enable local electorates to decide on council tax increases above specified levels, rather than central government. 2012/13 was the first financial year for council tax referendum limits.

5.2.2 The Provisional Settlement announced in December confirmed that the core referendum threshold would be maintained at the existing level of 2%. Some low costing district councils and police and crime commissioners will have a referendum principle of £5 applied. The Government is also allowing a social care council tax precept of 2% in addition to the core referendum threshold, allowing those councils with responsibility for social care to guarantee additional funding for social care services. This will mean that there will be some councils increasing their precept levels by up to 4% for 2016/17.

5.2.3 Where a reorganisation of local government takes place, such as the combination of the Dorset and Wiltshire and Swindon Fire Authorities, a process for harmonisation of the council tax precepts is required and a determination must be made about whether an authority's "relevant basic amount of council tax" is excessive. In order to make this determination the Secretary of State can specify an amount (an Alternative Notional Amount) to be used to determine whether or not the council tax referendum principles have been exceeded.

5.2.4 The Secretary of State considers that it is appropriate to set an Alternative Notional Amount for the newly merged Dorset and Wiltshire Fire and Rescue Authority of £67.86 in respect of 2015-16, i.e. the same level as the relevant basic amount of council tax for the outgoing Dorset Fire Authority, to allow equalisation to take effect in the first year of the new authority. It is this amount of £67.86 against which the 2% council tax referendum principle will be applied.

5.2.5 Should the ANA not be accepted there would be significant risks:

- **Reputational risk**, as officers and members have proactively campaigned and canvassed for the ANA as a means to support the business case for combination, and equalise the fire precept as early as possible;
- **Financial risk**, as the loss of base funding of approximately £0.700-£0.750m per annum, which would require further spending reductions than originally planned in the business case.

5.2.6 The level of council tax income that the Authority receives is based on the Band D Fire Precept and our taxbase for council tax purposes. The taxbase is the number of Band D equivalent households in the Dorset and Wiltshire areas. We have been notified by each billing authority of our taxbase figures for 2016/17. On average across the whole of the Dorset and Wiltshire our taxbase has risen by just under 2.1%. Taking a prudent approach, for medium term financial planning purposes, we have included estimated future increases at 1.5%, which is aligned to forecast increases expected by the billing authorities.

5.2.7 There are also one-off collection fund surpluses and deficits held at each of the billing authorities, which offset or add to the amount collected in year in respect council tax income. In total these amount to £863k for 2016/17, a larger than usual surplus not seen before, but these amounts are one-off windfalls and are not guaranteed to be sustainable in future years.

5.3 **Pay Costs**

5.3.1 Pay and pensions expenditure accounts for about 70% of the Authority's net revenue budget requirement. Consequently the cost of pay awards and other contractual costs such as pay increments are a major factor when budgeting for future years.

5.3.2 In his Autumn Statement 2011, the Chancellor announced plans for restraint on public sector pay, with a policy to restrict pay awards at an average of 1% for the two years from 2013/14. In Budget 2013 the Chancellor extended this policy to include the 2015/16 financial year, and it was further extended in the Summer Budget 2015 to include the four years from 2016/17.

5.3.3 Our medium term assumptions include provision for a 1% average pay award for corporate staff for 2016/17 and 2017/18 and 2% for uniformed staff. For future years we have assumed 2% pay awards for all staff groups. The 2% assumption for uniformed staff is considered prudent given the level of pay restraint for a number of years now and there may be added pressure for a more significant pay award particularly in view of potential changes to the firefighter role. The table below summarises the estimated additional costs of pay awards and increments over the life of this plan.

Table 4: Impact of pay awards and increments

	2016/17 £'000s	**2017/18 £'000s**	**2018/19 £'000s**	**2019/20 £'000s**
Cost of pay awards and contractual increments	355*	773	829	820

* 2016/17 includes the effects of savings from lower than budgeted pay awards in 2015/16

5.3.4 The cost of pay awards is a significant risk factor for our budget. The cost of underestimating pay awards by 1% is approximately £400k for a full year. We have included provision for underestimating pay awards in our general reserves risk assessment.

5.3.5 Another significant financial risk to the Authority is the introduction of the Single State Pension from April 2016. This will mean an end to the reduced, contracted-out, employer national insurance contribution rate that we currently pay for all staff who are members of the firefighters' pension scheme and local government pension scheme. For this Authority the additional cost has been estimated at £504k and this sum has been added to our budget projections for 2016/17 onwards.

5.4 **Other Inflationary Commitments**

5.4.1 Whilst the level of general inflation in the economy as a whole remains low at the current time we still see price pressures in fire specific cost areas. We also need to apply inflation increases to budgets where there is a contractual / legal commitment or for items beyond our control, such as business rates and utility costs. For all other non-pay expenditure we have assumed that budgets are frozen at 2015 prices. The total amount that has been allowed for contractual inflation in the budget for 2016/17 is an additional £196k.

5.5 **Investment Income**

5.5.1 For 2016/17, we have estimated the level of investment income to be about £80k based on current interest rates and our cashflow forecasts. Current investment return rates remain low and we do not expect any significant change for some time.

5.5.2 During 2008 the Dorset Fire Authority had invested £1m in Heritable Bank (a UK subsidiary of Landsbanki Island HF) which went into administration. The administrators, Ernst and Young, originally estimated that the projected return to creditors would be 80p in the £ by the end of 2012. This position has since improved and as of 31 December 2015 we had received repayments totalling just over £984k, or 98% of the original claim, and some further payments could be made in 2016.

5.6 **Firefighters Pensions**

5.6.1 There are now four separate parts to the firefighters' pension scheme arrangements, each with their own employer contribution rate determined by Government.

Firefighters' Pension Scheme 1992 (FPS) – A final salary scheme open to regular firefighters until April 2006 but closed since then to new members. The employer contribution rate for this scheme is 21.7% of pensionable pay.

Modified Firefighters' Pension Scheme - This is a modified section of the 1992 Scheme to allow retained firefighters the option to backdate their membership to 2000 as a result of pension rights granted under the Part-Time Workers (Prevention of Less Favourable Treatment) Regulations. The employer contribution rate is the same as the main 1992 Scheme.

New Firefighters' Pension Scheme 2006 (NFPS) – A final salary scheme introduced in April 2006 and open to regular firefighters. This scheme closed to new members from April 2015 with the introduction of the Firefighters' Pension Scheme 2015 (see below). The employer contribution rate for this scheme is 11.9%.

Firefighters' Pension Scheme 2015 – There is a new Career Average Revalued Earnings (CARE) scheme introduced in April 2015. All firefighters will move across to this scheme unless they have full protection (within 10 years of Normal Pension Age as at 1 April 2012) or tapered protection (between 10 and 14 years to their Normal Pension Age as at 1 April 2012). This scheme carries an employer contribution rate of 14.3% of pensionable pay.

5.6.2 In 2013 Auto-Enrolment of pensions was introduced. This means that all new employees are automatically enrolled in one of our occupational pension schemes and need to go through an opt-out process if they do not wish to be part of a Scheme. We have seen an increase in employees remaining in pension schemes as a result of this, with a consequential increase in employer contribution costs.

5.6.3 In addition to the requirement to make ongoing employer contributions, fire authorities are also responsible for costs associated with injury awards and additional lump sum contributions where firefighters retire through ill-health. For 2016/17 these costs are estimated to total £1.325m.

5.6.4 Table 5 below summarises the financial effects of the ongoing pension commitment.

Table 5: Firefighter Pension Costs

	2015/16 Budget £'000	2016/17 Budget £'000	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000
Injury and Ill-Health Pensions Cost	1,325	1,311	1,336	1,321	1,346
Ongoing employer contributions	4,039	3,775	3,851	3,928	4,007
Total Pensions Cost	5,364	5,086	5,187	5,249	5,353

5.7 Local Government Pension Scheme

5.7.1 Our corporate staff and staff who work in Service Control are members of the local government pension scheme. A new Career Average Revalued Earnings (CARE) scheme was introduced for all LGPS members from April 2014. Employer contributions have increased as more elements of pay, for example overtime, are now treated as pensionable.

5.7.2 An independent review of the level of employer contribution to the scheme is carried out by the Scheme's actuaries on a triennial basis. The last valuation of the Dorset and Wiltshire Pension Funds took place in March 2013. For the Dorset fund this showed a funding level of 84%, and an employer contribution rate of 17.0% to recover the deficit over a 25 year recovery period, compared to the current level of 17.2%. The Wiltshire fund showed a funding level of 77%, and an employer contribution rate of 26%, compared to the current rate of 17% plus a series of lump sum payments.

5.7.3 Whilst we are looking at the options for the future administration of the local government pension scheme, which could mean moving all current staff and pensions to a single administrator, for the present time we are maintaining the current employer two contribution rates. Moving to a single administrator in the future will make management of pensions easier for us as an employer, as well as making things clearer for staff and pensioners.

5.8 Transition Costs

5.8.1 We have identified that transitional work is required over the next few years to ensure that service provision is maintained and transition to the steady state is achieved. Much of this is associated with moving to the new organisational structure. The total costs of the transition process are forecast at £4.358m as detailed below.

Table 6: Transitional Costs

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Staffing Corporate	0.895	0.523	0.000	0.000
Staffing Uniformed	0.460	0.201	0.000	0.000
Redundancy/Delayed Leaving/Notice Pay	1.000	0.000	0.000	0.000
Pay Protection (3 years)	0.100	0.100	0.100	0.000
Additional Travel (4 years)	0.100	0.100	0.100	0.100
Leadership/Cultural Development	0.070	0.045	0.015	0.000
ICT Harmonisation	0.450	0.000	0.000	0.000
Total Transition Costs	**3.075**	**0.968**	**0.215**	**0.100**

5.9 **Combination Savings**

5.9.1 The projected savings from the combination are currently forecast to be just under £6m in total, in line with the Final Business Case approved in 2015. The table below shows a breakdown of the savings.

Table 7: Combination savings profile

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2018/19 £m
Capital financing – one off	0.100	0.000	0.000	0.000	0.000
2014/15 pay award savings	0.400	0.000	0.000	0.000	0.000
Functional review savings	0.608	3.025	0.085	0.000	0.000
IRMP savings	0.000	0.000	0.750	0.750	0.000
NFCSP savings	0.000	0.000	0.000	0.000	0.308
Total Savings	**1.108**	**3.025**	**0.835**	**0.750**	**0.308**
Cumulative Saving	**1.008**	**4.033**	**4.868**	**5.618**	**5.926**

5.9.2 The NFCSP saving of £308k has not yet been factored into our medium term forecast. Whilst we expect to make this saving it can only be delivered in conjunction with Devon and Somerset Fire and Hampshire Fire, our NFCSP partners.

5.10 **Options for 2016/17 Fire Precept**

5.10.1 Taking all of the details above into account the Service Budget requirement for 2016/17 is £55.070m. Officers and Members have looked at the impact of 3 different options for the level of fire precept for 2016/17 and these are shown below.

5.10.2 Each of the 3 options result in a different level of funding for the authority, and consequently a different level of budget deficit, as can be seen in Table 8. The impact of these options over the medium term is outlined in the next few paragraphs.

Table 8: Fire Precept Options for 2016/17

	Option 1 2016/17 1.99%	Option2 2016/17 1.00%	Option3 2016/17 0%
Taxbase	524,726	524,726	524,726
Fire Precept band D (£)	£69.21	£68.54	£67.86
Fire Precept Income (£m)	36.316	35.965	35.608
Collection fund surplus/deficit(-)(£m)	0.863	0.863	0.863
Revenue Support Grant (RSG)(£m)	8.069	8.069	8.069
BRR and Top Up grant (£m)	9.567	9.567	9.567
Total Revenue Funding (£m)	**54.815**	**54.464**	**54.107**
Estimated Service Budget 2016/17	**55.070**	**55.070**	**55.070**
Budget Surplus/deficit(-)	**-0.255**	**-0.606**	**-0.963**
Net Budget Requirement	**54.815**	**54.464**	**54.107**
Annual Increase in Fire Precept Band D above ANA (£)	**£1.35**	**£0.68**	**£0.00**
Weekly Increase in Fire Precept Band D above ANA (pence)	**2.6p**	**1.3p**	**0p**

5.11 **2016/17 Revenue Budget and Medium Term Forecast**

5.11.1 The table below shows updated projections of the new Authority's budget requirement from 2016/17 to 2019/20. The projections for 2017/18 onwards are based on the following assumptions:-

- Government funding as per the Local Government Finance Settlement 2016/17
- Acceptance of the four year funding settlement, with 9.3%, 12.3% 6.0% and 2.6% settlement funding assessment reductions over the next four years
- Equalisation of the fire precept in 2016/17
- 1.99% increase in fire precept each year
- 1.5% average increase in council taxbase each year
- 2% pay awards each year, where relevant
- 1% non-pay inflation, plus contractual commitments
- Introduction of Apprenticeship Levy from 2017/18, equivalent to 3% of paybill
- Service functional reviews undertaken and implemented in 2016/17
- Transitional costs funding staffing, redundancies, delayed notice period, pay protection, additional travel, leaderships/cultural development and departmental ICT harmonisation.

Table 9: Revenue Budget 2016/17 to 2019/20

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Original Budget	53.897	55.070	54.302	54.089
Plus One-off items	0.020	-3.070	-0.971	-0.217
Base Budget	**53.917**	**52.000**	**53.331**	**53.872**
- Single State Pension	*0.504*	*0.000*	*0.000*	*0.000*
- Pay Awards and Increments	*0.355*	*0.773*	*0.829*	*0.820*
- Other Inflation Costs and Contractual Commitments	*0.196*	*0.198*	*0.198*	*0.198*
- Functional Review Savings	*-3.025*	*-0.835*	*-0.750*	*0.000*
- RDS Investment	*0.000*	*0.500*	*0.000*	*0.000*
- Capital Financing	*-0.210*	*0.528*	*0.266*	*0.454*
- Apprenticeship Levy	*0.000*	*0.150*	*0.000*	*0.000*
- Transitional costs	*3.075*	*0.968*	*0.215*	*0.100*
- Other Changes	*0.258*	*0.020*	*0.000*	*-0.069*
Estimated Service Budget	**55.070**	**54.302**	**54.089**	**55.375**
Net Budget Requirement 2016/17	**55.070**	**54.302**	**54.089**	**55.375**
Total Funding	54.815	53.055	53.453	54.444
Budget Gap	**-0.255**	**-1.247**	**-0.636**	**-0.931**

5.11.2 The new Service will be using its general reserves and balances and transformation reserves to support Service transformation, associated transition costs and forecast budget deficits moving forwards. The table below shows the starting point for reserves available.

Table 10: Reserves available to support transformation

	General Reserves & Balances £m	Transformation Reserves £m	Total £m
As at 1 April 2015	4.449	2.867	7.316
Expected change in 2015/16	1.192	-0.309	0.883
Forecast as at 31 March 2016	**5.641**	**2.558**	**8.199**
*Less Risk Assessed Requirement **	-2.500		-2.500
Excess General Reserves & Balances	**3.141**	**2.558**	**5.699**

** see section 7.2*

5.11.3 Option 1, the 1.99% increase in fire precept, means that the forecast budget gap can be met from general balances that we have available, reducing the level of these balances to just over £2.6m by March 2020. This allows some funding flexibility and provides opportunities for service development, and provide the ability to address some issues and concerns that could alleviate pressures on the revenue budget:-

- There is a requirement to develop and deliver savings through the IRMP including a fire cover review (invest to save).
- On-going capital investment of approximately £5m per annum, for which there is very little possibility of grant funding to support, therefore prudential borrowing will be required.
- The new Authority has a property maintenance backlog to address of approximately £3.75m.
- The impact of the replacement national radios and communication system Emergency Services Mobile Communications Programme (ECSMP) is evolving and as yet it is not clear if there will be any additional costs to the Service.
- Home office will be taking over responsibility for the Fire Service and it is not clear how this will affect the funding mechanism for fire, in particular its impact on Business Rates funding.
- We have an ageing work, predominantly retained duty system (RDS) based staffing model through the rurality of Dorset and Wiltshire and vacancy management is a significant issue for the service.
- Sustainability of the RDS (On-call) is becoming more significant as the number of calls reduces.
- The sustainability of our youth intervention initiatives including salamander, troubled families, SPARC, cadets and Princes Trust is at risk due to partnership funding. A contingency provision of £120k per year over the next 4 years would ease these risks.
- The Authority has indicated that it wishes to support further apprentices. The direct and associated costs of four apprentices per year, is approximately £80k per year.

5.11.4 The other two options for the level of fire precept, how a 1% year on year precept increase looks and how a no increase option would look, do not provide the same opportunities. What all three options mean over the medium term, and the impact of the forecast surplus or deficit on our overall financial position, is shown in Table 11 below.

Table 11: Impact of 2016/17 fire precept options

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Option 1 – 1.99% fire precept increase				
Budget Deficit/Gap	-0.255	-1.247	-0.636	-0.931
Balance of reserves	**5.444**	**4.197**	**3.561**	**2.630**
Option 2 – 1% fire precept increase				
Budget Deficit/Gap	-0.606	-1.971	-1.755	-2.467
Balance of reserves	**5.093**	**3.122**	**1.367**	**-1.100**
Option 3 – no fire precept increase				
Budget Deficit/Gap	**-0.963**	**-2.701**	**-2.869**	**-3.982**
Balance of reserves	**4.736**	**1.886**	**-0.834**	**-4.816**

6. Capital Programme

6.1.1 The capital programme covering 2015/16 to 2019/20 is shown in Table 12 below. The revised amounts shown for 2015/16 include projects carried forward from 2014/15 and in-year changes to the programme. The capital programme for 2016/17 totals £4.994m.

Table 12: Capital Programme 2015/16 to 2019/20

	2015/16 Revised Budget £'000	2016/17 Original Budget £'000	2017/18 Original Budget £'000	2018/19 Original Budget £'000	2019/20 Original Budget £'000
IT and Communications	1,580	856	440	250	250
Operational Equipment	247	164	213	193	52
Vehicles	1,875	3,611	3,155	3,086	3,831
Property/Estates	2,107	4,119	752	687	700
TOTAL	**5,809**	**8,750**	**4,560**	**4,216**	**4,833**
Financed by					
Prudential borrowing	1,282	5,023	4,560	4,216	4,833
Capital receipts	772	0	0	0	0
Revenue contributions	510	0	0	0	0
Specific Grants	3,245	3,727	0	0	0
TOTAL	**5,809**	**8,750**	**4,560**	**4,216**	**4,833**

6.1.2 A major part of the capital programme is the replacement requirements for aerial appliances and B-type fire appliances. We agreed common specifications for both types of vehicle with Wiltshire FRS but purchase plans have been on hold pending the Combination. The replacement programme for 2016/17 includes a provision of £1.2m for replacing two aerial appliances and £1.35m for five B-type fire appliances. A further £600k is included in 2017/18 to replace a third aerial appliance, but this is subject to the IRMP review process. £7.3m is included across 2017/18 to 2019/20 for the planned replacement of twenty six B-type fire appliances. Again, this will be subject to the IRMP review process.

6.1.3 The 2015/16 revised budget and 2016/17 original budget amounts include adjustments for expenditure financed from the Transformation Funding Bid. £3.257m is included within the Property/Estates budget for 2016/17 to fund works for the new safety centre and £470k is included in the IT and Communications budget for 2016/17 to complete the required ICT infrastructure works for the new Service.

6.1.4 Table 7 above also shows the assumptions currently being made about financing the capital programme. Capital expenditure is generally funded by a number of sources, namely capital receipts, direct revenue contributions, specific capital grants, and under the capital accounting regime in respect of local authority capital accounting, through prudential borrowing.

6.1.5 Prudential borrowing is undertaken usually at the end of the financial year in which the expenditure is incurred. Currently the revenue costs of borrowing are approximately £75k per £1m borrowed (based on interest rate of 3.5% and debt repayment of 4% over a 25 year period). The budget includes provision for prudential borrowing as per table 7 above.

6.1.6 The new Service will hold revenue resources, by way of reserves associated with capital expenditure, which it may choose to use fund the capital programme. These are anticipated to be approximately £3.775m as at 1 April 2016 (see table 17 at paragraph 7.3.2 below). At this stage the capital programme above assume no use of these revenue resources/reserves to fund capital expenditure, but this is subject to ongoing review. Should the Service choose to use all of these reserves to part fund the capital programme this would save approximately £280k on the revenue budget.

6.1.7 The cost of external borrowing has reduced from previous MTFP forecasts as a result of using grant funding and some direct revenue financing, as well as delays around certain elements of the capital programme, particularly vehicle replacements. In 2014/15 Dorset and Wiltshire received a total of £1.77m as a final allocation of Fire Capital Grant. This funding is likely to be fully spent by the end of the 2015/16 financial year.

6.1.8 Spending Review 2013 announced in June 2013 that Fire Capital Grant was being replaced by the Fire Efficiency Incentive Fund for 2015/16 and this was allocated via a bidding process. Wiltshire led a successful bid, receiving £5.54m of funding to support the Combination and provide a safety centre in the Wiltshire area. The Fire Efficiency Incentive Fund was a one off funding allocation, the Provisional Local Government Finance Settlement for 2016/17 does not include any specific fire sector capital funding.

6.1.9 The anticipated annual revenue costs of supporting the capital programme are set out in the table 13 below. This includes current commitments to operating and finance lease rental payments arising from the vehicle replacement programmes of both Services in earlier years and the costs of repaying external borrowing.

Table 13: Revenue costs of supporting the Capital Programme

	2015/16 Original Budget £'000	**2016/17 Original Budget £'000**	**2017/18 Original Budget £'000**	**2018/19 Original Budget £'000**	**2019/20 Original Budget £'000**
Operating lease rentals	481	261	241	49	41
Finance lease rentals	114	114	114	114	10
Costs of borrowing	1,971	1,981	2,529	2,987	3,553
TOTAL	**2,566**	**2,356**	**2,884**	**3,150**	**3,604**

7. Reserves and balances

7.1 The Fire Authority needs to maintain separate reserves and balances to help deal with unexpected contingencies and specific risks that cannot be managed within the annual revenue budget, and to provide a working balance to help manage cash flow fluctuations arising from their normal business activities. An annual review of reserves is carried out as part of the budget setting cycle.

7.2 **General Balances and Reserves**

7.2.1 A combined risk assessment of the level of general reserves required by the new Fire Authority was carried out in developing the Final Business Case for Combination. Individually, each authority had assessed its level of the reserve requirement at £1.5m. The combined risk assessment indicated that a level of £2.5m would be appropriate for the new Authority, releasing £0.5m as additional funding to support the transition process. Following a review against the new strategic risk register and other financial risks, the new risk assessment of £2.5m remains prudent, at approximately 5% of the Authority's net budget requirement.

7.2.2 Table 14 below shows the make-up of the latest risk assessment. The risks covering uncertainty over employer pension contribution rates and increased take up of pension opportunities by retained duty system staff have been removed. The new employer pension contribution rates are now reflected in our pay budget calculations and sufficient provision is included in the RDS pay budget to cover expected pension costs.

Table 14: Risk assessed level of General Reserve

Type of risk	Risk	2016/17 £'000	Commentary
Underestimate of pay awards by 1.0%	High	400	£400k would cover the full year effect of a 1% variation across all staffing groups given a combined pay budget of around £40m.
Impact on the retained pay budget of large scale incidents or others periods of high activity such as those due to spate weather conditions	High	400	These sorts of events can all lead to significant increases in operational activity. As a largely retained, "pay as you go" services, this represents a particular risk to the Service and allowance needs to be made for increased costs. The joint budget for retained activity paid for on an activity basis is approximately £2.7m, so £400k represents around a 15% variation.
Risk of industrial action/inability to respond to emergency incidents	High	250	This continues to be a high risk given the financial pressures on all public sector organisations, the likelihood of further cuts in funding and potential for service changes, public sector pay freezes and changes to public sector pensions. Amount based on historic costs.
Failure to adequately provide for non-pay inflation	Low	100	Our budgets allow for a small element of general price inflation as well as specific

Type of risk	**Risk**	**2016/17 £'000**	**Commentary**
			contractual inflation in certain circumstances, however in the main, budgets are cash limited with no inflationary increase. This is not sustainable in the longer term.
Uninsured risks and / or unfavourable outcome to any legal action taken against the Authority - including health and safety risks, procurement challenges, employment issues, etc.	Low	250	The new Authority will maintain comprehensive insurance arrangements but these cannot cover all possible risks or potential legal claims. For instance, there are some uninsured risks not covered, such as equal pay, negligence or discrimination claims. The value of this risk has been increased from £100k to £250k to reflect additional risks associated with transition to the new Service.
Contribution to major incident not covered by Bellwin	Low	110	In the event of an incident occurring in Dorset or Wiltshire that would be covered by the Bellwin Scheme the Authority would be required to make a contribution equivalent to 0.2% of its revenue budget, plus 15% of the amount spent over the threshold of £50k.
Collection rates for council tax and business rates, collection fund surpluses/deficits, taxbase and the impact of localised support for council tax are worse than forecast	High	400	Following the introduction of the new business rates retention funding system and other new initiatives such as localised support for council tax, collection rates and assumptions made by billing authorities are more volatile and this presents new funding risks for the major precepting authorities. More than 75% or £40m of the authority's income comes from these sources. The value has been increased from £300k to £400k.
Future reductions in Government funding are worse than forecast. Failure to deliver the necessary savings to ensure financial sustainability.	High	400	Whilst we now have an opportunity to agree a four year settlement with Government, the exact terms of this remain unclear and future funding levels remain somewhat uncertain. The move from DCLG to the Home Office creates additional funding uncertainty.
General contingency for unidentified items	High	300	The revenue budget does not make any provision for in-year financial contingency. Given the current level of budget cuts and forecast future reductions there is a risk that the Service would be unable to manage a significant one off cost not covered specifically above. This could, for example, be a requirement to undertake some major unplanned property works.
Recommended level of general reserve		**2610**	

7.2.3 The new Service will be using its general reserves and balances and transformation reserves to support Service transformation, associated transition costs and forecast budget deficits moving forwards. The two tables below show the starting point for reserves available and how they would be impacted by the 3 fire precept options for 2016/17:

Table 15: Reserves available to support transformation

	General Reserves & Balances £m	Transformation Reserves £m	Total £m
As at 1 April 2015	4.449	2.867	7.316
Expected change in 2015/16	1.192	-0.309	0.883
Forecast as at 31 March 2016	**5.641**	**2.558**	**8.199**
Less Risk Assessed Requirement	-2.500		-2.500
Excess General Reserves & Balances	**3.141**	**2.558**	**5.699**

Table 16: Impact of 2016/17 fire precept options

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Option 1 – 1.99% fire precept increase				
Budget Deficit/Gap	-0.255	-1.247	-0.636	-0.931
Balance of reserves	**5.444**	**4.197**	**3.561**	**2.630**
Option 2 – 1% fire precept increase				
Budget Deficit/Gap	-0.606	-1.971	-1.755	-2.467
Balance of reserves	**5.093**	**3.122**	**1.367**	**-1.100**
Option 3 – no fire precept increase				
Budget Deficit/Gap	**-0.963**	**-2.701**	**-2.869**	**-3.982**
Balance of reserves	**4.736**	**1.886**	**-0.834**	**-4.816**

7.2.4 It is clear from Table 16 that the authority's medium term financial solvency would be severely impacted should either Option 2 or Option 3 be taken forward. This would require further significant work to identify additional new cost savings to reduce the revenue budget requirement.

7.3 Earmarked Reserves

7.3.1 Earmarked reserves are held to provide funds to meet future known or predicted financial costs or liabilities. They help deal with specific risks that cannot be managed within the annual revenue budget or where significant fluctuations in budget or council tax would be required. Earmarked reserves are also linked to any one off costs or liabilities arising from the strategic risk register.

7.3.2 The table below shows a summary of the Authority's current earmarked reserves and indicative plans for their use over the next few years.

Table 17: Summary of Earmarked Reserves

Earmarked Reserve	Opening Balance 1/4/15 £'000	Planned use in 2015/16 £'000	Planned use in 2016/17 £'000	Closing balance 31/3/17 £'000
Ill health & injury pensions	895	(76)	(40)	779
Part time workers (RDS pensions)	1,000	0	0	1,000
Business rates	100	0	0	100
Insurance	967	0	0	967
Business Transformation	2,867	2,832	(255)	5,444
Capital	4,175	(400)	100	3,875
Leadership Development	280	0	0	280
Retained Duty System	92	110	0	202
Service Control Centre	916	(379)	(100)	437
Safety Centre	500	500	0	1,000
Other	508	(83)	(100)	325
TOTAL	**12,300**	**2,504**	**(395)**	**14,409**

7.3.3 Explanation of main reserves:

Ill health and injury pensions – since 2006 individual fire and rescue services have been responsible for the costs of ill health and injury pensions, including related additional lump sum payments that we may be required to pay. For a firefighter these payments can range between £60k and £120k, with higher amounts payable for more senior ranks. Both Services have established reserves, particularly to manage any one-off additional costs.

Part time workers (RDS pensions) – this reserve was set up by Wiltshire to mitigate the effect of the Employment Tribunals decisions relating to the pension access rights of retained firefighters. The need for this reserve going forward is being reviewed.

Insurance – Dorset has followed an approach of self-insurance since becoming a combined fire authority in 1997. This reserve represents funding set aside to manage the risk of extraordinary losses over and above those expected in normal circumstances, or those covered by external insurance policies. We are currently evaluating the insurance options for the new authority but the early indications are that moving forward the new authority will follow a similar approach to insurance risk. The level of reserve funding will be reviewed once the new arrangements are in place.

Business Transformation – this is funding previous set aside to support individual Service transformation programmes, but now combined to support the transition to the new fire and rescue service. The use of this reserve is covered in section 5.11, which describes our medium term financial forecasts.

Capital – in previous years each authority has been setting aside funds to support future capital expenditure and reduce the requirement to undertake long term borrowing. A strategy for utilising this funding for the new authority needs to be developed, and will reflect the need for future capital investment.

Safety Centre – as part of the bid for Transformation Funding each authority agreed to provide £500k of matched funding to support the development of the new Wiltshire safety centre.

7.3.4 The Authority also holds £2.7m (as at 31 March 2015) in dedicated grant funding. Of this £1.5m is held to support the Networked Fire Control Services Project. Much of the £3.6m allocated to Dorset and Wiltshire has been used to fund the one-off costs of the new fire control system, and the remainder will be used over the next few years to support the ongoing revenue costs. The majority of the remaining grant funding is money received in both Services to support prevention activity such as Fire Cadets, SPARC and Salamander. In addition £5.54m of Transformation Bid funding was received during the 2015/16 financial year and we are using this to support the combination process and the new safety centre in Wiltshire. We expect to carry forward £3.727m of the Transformation Bid funding as indicated in the capital programme.