



**DORSET & WILTSHIRE  
FIRE AND RESCUE  
AUTHORITY**

Item 18/44

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	28 September 2018
SUBJECT OF THE REPORT	Finance Principles
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For endorsement and approval
EXECUTIVE SUMMARY	<p>In preparation for the budget 2019-20 and making decisions on the fire precept there are a number of finance strands interlinked which will need consideration. These include funding, budget spending proposals and our reserves position, in particular around the financial principles and assumptions applied.</p> <p>This paper details these financial assumptions and principles in preparation for establishing the next iteration of the Medium Term Finance Plan (MTFP) and budget for 2019-20, which will be presented at the meeting of the Dorset &amp; Wiltshire Fire and Rescue Authority (the Authority) in February 2019.</p>
RISK ASSESSMENT	Financial sustainability remains a key focus as a strategic risk, and as such the establishment of a robust financial outlook and financial position is a critically important for financial planning and decision making for the Authority.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report
BUDGET IMPLICATIONS	None other than the discussion will assist in the decision making process in setting the budget and fire precept level for 2019-20.

RECOMMENDATIONS	Members are asked to: <ol style="list-style-type: none"><li>1. Endorse and approve the financial planning assumptions and principles to be applied when establishing the MTFP and setting the budget and precept levels for 2019-20</li></ol>
BACKGROUND PAPERS	Medium Term Financial Plan 2018-19 to 2020-21 <a href="#">Budget 2018-19</a> (Authority paper 9 February 2018)
APPENDICES	None
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## 1. Introduction

- 1.1 In establishing the budget and precept for 2019-20 there are significant areas of finance on which important decisions are taken. This report explains the key finance issues for the Dorset & Wiltshire Fire and Rescue Authority (the Authority), clarifies the assumptions made and finance principles to be approved, and provides a brief update on plans and strategies in preparation for the 2019-20 budget and beyond.

## 2. Financial Assumptions and Principles

- 2.1 Our current set of finance principles and assumptions on which budgets are based for financial planning purposes were included in the Medium Term Financial Plan (MTFP) 2018-19 to 2020-21. These were then updated in establishing the budget 2018-19 at the February 2018 meeting of the Authority. These principles and assumptions must not only be fit for purpose but more importantly reflective of both our operating environment and our agreed strategic risks. The financial assumptions and principles detailed below are in respect of:

- Government funding
- Taxbase (equivalent band D properties)
- Fire precept band D (council tax) and referendum thresholds
- Collection Fund balances
- Pay awards and inflation
- Budget gaps and General Balances

### 2.2 Government Funding

- 2.2.1 Previous spending reviews established a four-year settlement funding assessment for local authorities 2016-17 to 2019-20, in particular this was guaranteed in principal to give authorities more certainty over funding on submission of an efficiency strategy being in place. Consequently, the Authority approved the efficiency plan at its meeting in September 2016 for submission to Government.
- 2.2.2 The financial settlement for 2017-18 therefore confirmed the four-year settlement to 2019-20. For the Authority this meant reductions in Settlement Funding Assessment of 9.2%, 12.3%, 5.9% and 2.3%, 2016-17 to 2019-20; a total reduction of approximately £5.3m.
- 2.2.3 **Principle 1 - Government settlement funding assessment reductions of 2.3% in 2019-20, as provisionally stated in the previous finance settlements.**

- 2.2.4 2019-20 is the fourth year of the settlement, and the Government are reviewing the funding mechanism for all local authorities funding beyond 2019-20, in particular moving towards a Fair Funding Formula, Business Rates Retention and the removal of Revenue Support Grant. It is unlikely that we will know what the outcome of the reviews being undertaken until consultation on the 2020-21 finance settlement.
- 2.2.5 The Government's fiscal policy remains to support adult and social care, policing and the National Health Service, and therefore a prudent view would be to continue to assume further reductions in grants to the fire sector. We therefore will plan, as in the last Medium Term Financial Plan (MTFP), assuming annual reductions of 5% until the Government announce their plans.
- 2.2.6 **Principle 2 - Further Central Government settlement funding assessment reductions assumed at 5% per annum beyond 2019-20, consistent with the assumptions made in the MTFP.**
- 2.3 **Taxbase**
- 2.3.1 The number of equivalent band D properties across the Authority, i.e. taxbase, is 541,239. This must be reported to us each year from all our constituent authorities by the end of January and is used as the basis to calculate the precept. In simple terms the Precept = Taxbase x Council Tax band D, which for 2018-19 was  $541,239 \times £72.70 = £39.3m$ .
- 2.3.2 The tax base generally increases each year, as confirmed by our constituent authorities. In the larger constituent authorities of Bournemouth, Poole, Wiltshire and Swindon which totals approximately 70% of the number of band D equivalents (taxbase), the taxbase increased on average over the last three years by is 2.1% each year. For the other constituent authorities (the remaining 30%), the increase is lesser so, at an average over the last three years of 1.0% each year. The average increase over the whole authority area is 1.8%.
- 2.3.3 We have contacted our constituent authorities to gauge whether taxbase is likely to increase and the picture is mixed. For planning purposes, our constituent authorities are at present reviewing their taxbase estimates for 2019-20 and early indications are that they are either stable or slightly on the up, but no firm estimates have been given as yet. We will therefore plan on the assumption of an increase for MTFP purposes for an increase of 1.5% each year, which is an increase on estimate in the current MTFP of 1% each year, but below the average for the last three years of 1.8%.
- 2.3.4 A 1% increase in taxbase equates to an approximately 5,400 band D properties, generating approximately £400k in precept.

**2.3.5 Principle 3 - Taxbase increases of 1.5% per annum, an increase on the assumptions in the MTFP, as indications show higher than previously planned rises.**

**2.4 Fire Precept Band D (Council Tax) and Referendum Thresholds**

2.4.1 The provisional settlement for 2018-19, later confirmed on 6 February 2018, included indicative council tax increase thresholds for referendum purposes for fire and rescue authorities at 3% for both 2018-19 and 2019-20. Beyond 2019-20 Government funding as detailed above in section 2.2, also identified that in establishing funding to FRSs, allowance has been made by the Government for council tax increases beyond 2019-20 of up to 1.99%.

**2.4.2 Principle 4 - Referendum principles will continue at the 3% level for all Fire and Rescue Authorities for 2019-20, in line with that indicated in last year's finance settlement and 2% each year thereafter.**

**2.4.3 Principle 5 - Fire precept band D council tax increases of 2.99% for 2019-20, as indicated in the last years finance settlement then 1.99% per annum thereafter.**

2.4.4 In establishing the budget and MTFP last year, Members also indicated that they would like the freedoms and flexibilities to be able to establish council tax levels higher than the referendum threshold limit. This has always been possible; however, this would come at a cost under current legislation, i.e. in breaching the referendum threshold could incur estimated costs of holding a referendum of the order £1.5m to £2m.

2.4.5 This would be an expensive option, and Members have continued to raise this nationally, and to lobby Government for additional freedoms and flexibilities for the Authority to have a £5 council tax increase, rather than the current 2.99% capped increase without the need to hold a referendum.

2.4.6 A £5 council tax increase would be similar to that offered to all Police and Crime Commissioner's (e.g. £12 per annum). A £5 per year increase, which is less than 10 pence per week for 2019/20 only, would ensure that, in the short to medium term we would be able to maintain current levels of service provision across Dorset and Wiltshire.

2.4.7 Without this ability to raise additional income, with the current Governments fiscal policy we are likely to have to reduce front line delivery of service, which could potentially mean station closures and/or significant adverse changes to our education and prevention programmes that help to reduce the strain on the wider public purse, such as reduced police/ambulance call outs; hospital stays and social care services.

- 2.4.8 As a principle, Members continue to lobby Government for the additional freedoms and flexibilities.
- 2.4.9 **Principle 6 – Members to proactively lobby Government to obtain the freedoms and flexibilities for a council tax increases of £5 per annum, without the need to hold a referendum.**
- 2.5 **Council Tax Collection Funds Balances**
- 2.5.1 Each constituent authority collects council tax from their constituent collecting authorities, and how much is collected varies. Assumptions are made each year by the collecting authorities on collection rates, typically about 97-98% of what is due, and taxbase is adjusted to reflect this. In general, the amount constituent collecting authorities collect each year is greater or less than their estimated collection rates, which leads to either a surplus or deficit on the collection fund.
- 2.5.2 Our constituent collecting authorities have in the last three years declared surpluses on their council tax collection fund, i.e. they have collected more than they originally estimated.
- 2.5.3 The share of the balance in relation to the Authority must be reported to us by the collecting authorities by the end of January. We have contacted our constituent authorities to gauge whether the collection fund is likely to be in surplus or deficit. For planning purposes, our constituent authorities will be reviewing their collection fund balances, but are unlikely to be able to provide any detail until later this year.
- 2.5.4 In the last three years (including 2018-19), collection fund surpluses declared in relation to the Authority when setting the budget have been £863k, £530k, £629k (2016-17, 2017-18 and 2018-19 respectively). Whilst these are not guaranteed, the current MTFP assumes £250k each year to be prudent, as deficits can arise as well as surpluses in constituent authorities. We will continue to assume this in the revision of the MTFP.
- 2.5.5 **Principle 7 - The continuation of surpluses on collection fund balances of £250k per annum, being prudent as funds held at constituent authorities have delivered in excess of this in total for a number of years.**
- 2.6 **Pay Awards and Inflation**
- 2.6.1 Pay awards for 2018-19 have been agreed between the employers (the Local Government Association (LGA) on behalf of employers) and the representative bodies at 2% for green book, (corporate staff), grey book and gold book (unformed staff). This is what has been assumed in the MTFP and we will continue to assume a 2% increase for planning purposes.

- 2.6.2 For uniformed staff, discussions are taking place at a national level regarding the duties and responsibilities undertaken by firefighters and the remuneration model. This is likely to impact future pay agreements, but until such time proposals are clarified, any additional financial impact will not be considered for planning purposes.
- 2.6.3 For all other costs, other than pay related, these will be subject to inflationary increases. Any contractual increases will be budgeted for accordingly, and in relation to all other costs, some of which will be subject to general inflation, we will assume a 1% increase for inflation. This approximates to around £200k per annum.
- 2.6.4 **Principle 8 - Pay awards are assumed at 2% per annum (unless otherwise agreed), and non-pay inflation at 1% each year.**
- 2.7 **Budget Gaps and General Balances**
- 2.7.1 We must be able to balance our budget each year i.e. our total spending must not exceed our total income. For future planning purposes, once our costs have been estimated and our income consolidated, all based on the finance principles and planning assumptions above, there is likely to be a deficit (budget gap) identified in future years. We must therefore plan for efficiencies and savings, budget reductions and/or additional funding in order to bridge the gap or use available reserves or balances in the short term, for example, developing and delivering savings through the Communities Programme. Use of reserves is not sustainable beyond the short term.
- 2.7.2 Establishing the identified budget deficits in future years allows us time to plan ahead to bridge these deficits. Depending on priorities and timing of spending plans aligned to the Service Delivery Plan, the use of reserves may be required to bridge any residual budget gaps but will be minimised where possible.
- 2.7.3 **Principle 9 - Any residual revenue budget gap will require funding from the use of reserves.**
- 2.7.4 It is the Authority current policy to maintain General Balances, which have been risk assessed, at or above 5% or £2.5m.
- 2.7.5 It is accepted generally across public sector that it is prudent to maintain levels of General Balances at approximately 5% of the budget. For us, this equates to £2.73m (5% of £54.526m). We will therefore transfer any excess above 5% of General Balances or £2.5m, whichever is greater, each year as a principle to the transformation improvement reserve which will assist is in meeting our objectives through the Service Delivery Plan, and meet any residual budget deficits

- 2.7.6 **Principle 10 – Maintain General Balances at 5% or £2.5m, whichever is the greater, transferring excess balances above 5% or £2.5m, whichever is the greater, to the transformational improvement reserve.**

### 3. Summary and Key Points

- 3.1 Members are requested to endorse and sign up to the financial assumptions and principles in establishing the next Medium Term Financial Plan and budget for 2019-20. In summary they are:

**Principle 1** - Government settlement funding assessment reductions of 2.3% in 2019-20, as provisionally stated in the previous finance settlements.

**Principle 2** - Further Central Government settlement funding assessment reductions assumed at 5% per annum beyond 2019-20, consistent with the assumptions made in the MTFP.

**Principle 3** - Taxbase increases of 1.5% per annum, an increase on the assumptions in the MTFP, as indications show higher than previously planned rises.

**Principle 4** - Referendum principles will continue at the 3% level for all Fire and Rescue Authorities for 2019-20, in line with that indicated in last year's finance settlement and 2% each year thereafter.

**Principle 5** - Fire precept band D council tax increases of 2.99% for 2019-20, as indicated in the last years finance settlement then 1.99% per annum thereafter.

**Principle 6** - Members to proactively lobby Government to obtain the freedoms and flexibilities for a council tax increases of £5 per annum, without the need to hold a referendum.

**Principle 7** - The continuation of surpluses on collection fund balances of £250k per annum, being prudent as funds held at constituent authorities have delivered in excess of this in total for a number of years.

**Principle 8** - Pay awards are assumed at 2% per annum (unless otherwise agreed), and non-pay inflation at 1% each year.

**Principle 9** - Any residual revenue budget gap will require funding from the use of reserves.

**Principle 10** - Maintain General Balances at 5% or £2.5m, whichever is the greater, transferring excess balances above 5% or £2.5m, whichever is the greater, to the transformational improvement reserve.



- 3.2 Once further work is undertaken on service and budget requirements and we receive more detailed information from constituent authorities and the Government regarding our funding, the MTFP will be presented to the Authority early in 2019, for consideration in setting the budget and precept levels for 2019-20.

September 2018