Item 19/06 Appendix D

DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Dorset & Wiltshire Fire and Rescue Authority

Medium Term Finance Plan 2019-20 to 2022-23

February 2019

Contents

1. Introduction

1.1 This Medium Term Finance Plan (MTFP) updates the previous Dorset & Wiltshire Fire and Rescue Authority (the Authority) MTFP. It sets out an outline financial strategy to meet the requirements of Members' agreed vision and strategic priorities, as set out in the Community Safety Plan. The investment strategy is sufficiently robust enough to support the strategic intent of our approach to integrated risk management planning but has the flexibility to anticipate, and react to, changes in our operating environment.

1.2 The current financial context of the Authority is set by the funding outcomes from the Government's latest spending review. As part of the latest spending review, the provisional finance settlement for 2019-20 was announced on 13 December 2018 and confirmed in the final settlement on 29 January 2019; the final year of the four year funding strategy for the period 2016-17 to 2019-20. Our four year Efficiency Plan and Strategy formulated in the Autumn of 2016 gave rise to the confirmation of our expected finance settlements for this four year period up to 2019-20. The impact of this announcement is discussed on pages 4 and 5, along with a profile of how the Authority compares with other fire and rescue authorities (page 10).

1.3 In developing our financial plans for 2019-20 onwards we have identified a number of financial scenarios. We have ensured that our plans are reflective of the investment needs required to mitigate and manage our agreed strategic risks. We have also carried out a sensitivity analysis on some key areas such as the impact of varying levels of fire precept increase.

1.4 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. The table on page 13 shows our revenue budget projections up to 2022-23.

1.5 Our capital investment needs for 2019-20 to 2022-23 are shown from page 15 onwards. This shows our draft capital investment requirements, how we plan to finance this investment and the impact on the revenue budget.

1.6 The final section of the MTFP looks at our reserves and balances (page 17) and how we plan to use them over the next few years to support the Authority's revenue budget and capital investment needs, i.e. our Reserves Strategy.

1.7 As Members will be aware it has been confirmed from previous audits that the financial arrangements for the Authority are sound and our scenarios concerning our future financial profile have received audit assurance.

1.8 The purpose of the report is to enable the Authority to consider and assess the MTFP including the assumptions on funding from the Government up to 2022-23.

1.9 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. Financial Context

2.1 National context

2.1.1 As part of the final local government settlement for 2019-20, the Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) has confirmed the final year of a four year settlement offer to authorities covering the period 2016-17 to 2019-20.

2.1.2 The detail of the last adjusted settlement for fire authorities, comparing 2019-20 to 2016-17, shows proposals giving an average reduction in funding across all combined fire authorities (excluding London) of 16.6%. For the Authority, the reduction was 20.5%, the fourth highest (worst) settlement of all combined fire authorities. This reduction includes a 53% reduction in revenue support grant funding, since 2016-17, as overall funding moves further towards full funding from local business rates.

2.2 Impact on the Dorset & Wiltshire Fire and Rescue Authority

2.2.1 The impact on the Authority of these national funding changes is shown in the table below. The Settlement Funding Assessment (SFA) is the Government's assessment of how much funding is allocated to each authority and is made up of two parts, i.e.

- Baseline Funding Level (BFL): the amount the Government expects the Authority to receive from local business rates retention, and top up grant

- Revenue Support Grant (RSG), centrally funded grant distributed. The Government's aim is to phase this out and move further towards full funding from local business rates.

Table: Settlement Funding Assessment (as at February 2019)

	2016-17	**2017-18**	**2018-19**	**2019-20**
	£m	**£m**	**£m**	**£m**
Baseline Funding Level	9.567	9.763	10.056	10.286
Revenue Support Grant	8.069	5.704	4.493	3.796
Settlement Funding Assessment	17.636	15.467	14.549	14.082

2.2.2 From the table above, it is evident that the Government's Settlement Funding Assessment for the Authority is reduced by approximately £3.5m over the period 2016-17 to 2019-20.

2.2.3 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. They justify this by publishing a 'Core Spending Power' calculation for each local authority, fire authority and police and crime commissioner. The latest details of this calculation for the Authority for the period up to 2019-20 are shown in the following extract (table below) from MHCLG's published figures.

Table: Government Assessment of Core Spending Power

Core Spending Power - Authority	**2016-17**	**2017-18**	**2018-19**	**2019-20**
	£m	**£m**	**£m**	**£m**
Settlement Funding Assessment	17.636	15.467	14.549	14.082
Precepts (Council Tax)	36.316	37.489	39.348	41.239
Rural Services Delivery Grant	0.049	0.039	0.049	0.049
Transition Grant	0.167	0.210	0.000	0.000
Compensation for under-indexing Business Rates Multiplier	0.138	0.147	0.230	0.335
Core Spending Power	54.306	53.352	54.176	55.705

2.2.4 Work is continuing in central Government to review and potentially redesign the funding system. As a result, any future offer will be subject to outcomes of that work.

2.2.5 Within the public sector as a whole, with spending pressures increasing as demand increases (e.g. adult and children services) and costs increasing above inflation, the current national financial environment is also less certain. This is particularly the case due to the uncertainty around Britain leaving the European Union (EU). As a result, we expect that the impact of the Government's fiscal policies will continue beyond 2019-20.

3. Service Context

3.1 Investment linked to strategic risks register, revised ministerial focus and firefighter safety

3.1.1 Members will be familiar with the content of the strategic risk register which is reviewed by the Strategic Leadership Team (SLT) on a monthly basis and by the Finance and Governance Committee at each meeting. This MTFP is reflective of the issues identified within our Strategic Risk Register. This ensures that sufficient resources are available to deliver the agreed programmes of work, and actions that manage and mitigate these high level corporate risks.

3.1.2 In order to make sure that the principles and content of this MTFP achieve this objective, the Chief Fire Officer undertook a resourcing review across all departments in 2017-18, which has been incrementally updated. The resourcing offered the opportunity to look at where we potentially needed to strengthen some areas of the Service to reflect challenges and opportunities that emerged through:

- the introduction of the Policing and Crime Act 2017
- ministerial expectations in terms of workforce reform (influenced by the Thomas Review)
- feedback from staff through the ‘Eyes and Ears’ survey

4. Efficiency and Value for Money

4.1 The creation of the new Authority in April 2016 put value for money (VFM) at the heart of our governance arrangements.

4.2 VFM is also about how well we understand our communities, our landscape in which we operate and the environment in which we work (i.e. our strategic and local context), our desired or expected outcomes (our objectives), not just as a fire service, but also in a wider public value context, and how we allocate our resources (inputs) to achieve the desired outcomes and impacts economically, efficiently and effectively whilst considering and planning for the future.

4.3 There is no one single way in which VFM can be demonstrated, but through a set of principles approach we can demonstrate achievement of economy, efficiency and effectiveness.

4.4 We will use, in a number of corporate areas where appropriate to do so and applicable, the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) VFM Benchmarking Club. The VFM indicators will assist us to:

- self-assess our performance using robust and relevant indicators
- pinpoint the strengths and weaknesses in our organisation
- identify areas of efficiency and improve our use of resources
- compare our financial performance with our peers
- see how our corporate departments compare individually and across the piece
- demonstrate our commitment to improving efficiency.

4.5 **Economy** - *minimising the cost of resources used or required (inputs) while having regards for quality – spending less.*

4.5.1 To demonstrate economy, we have good corporate governance around our procurement of goods and services and controls within Financial Regulations and Contract Standing Orders.

4.5.2 A ‘Basket of Goods’ exercise in 2016 was carried out within the fire service. We demonstrated that our purchasing decisions were value for money in that, in the majority of cases, we purchased similar goods for less money than the average. We will continue to monitor our purchases against this and, in the next iteration of the basket of goods exercise, to continue to secure VFM.

4.5.3 A savings register will identify where savings have been achieved through reducing costs and be updated and monitored on an ongoing basis and be reported through Service Delivery Teams.

4.6 **Efficiency** - *the relationship between the outputs achieved from the inputs (i.e. goods or services and the resources used to produce them) – spending well.*

4.6.1 Our current approach and principles to securing greater efficiency, as identified in our efficiency plan established as part of the four-year funding settlement 2016-17 to 2019-20, are that we will:

- review the way we formally deliver 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 maximising the opportunities to share 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.

4.6.2 We will continue with and develop our Smarter Working programme, developing new ways of working, policies and procedures; re-engineering departments as priorities change, rationalising our estate and maximising technology and mobile working with continued investment as required. Investment on Information Communication and Technology (ICT) and our estates will continue in line with our 'ICT Roadmap' and Integrated Property Asset Management Plan and all additional requirements identified and approved through the budget process or business case process will be captured and planned into the MTFP. The establishment of any savings or efficiencies as a result of this, will be registered on an ongoing basis and monitored in our savings register/efficiency plan and be reported through Service Delivery Teams (SDT).

4.6.3 For all procurements undertaken, to obtain VFM we will consider the optimum combination of "whole life cost" (i.e. acquisition cost, cost of maintenance and running costs, disposal cost etc.) of a purchase and its fitness for purpose (i.e. quality and ability to meet our requirements). This definition enables us to compile a procurement specification which includes social, economic and environmental policy objectives (e.g. carbon footprint) within the procurement process. "Whole life cost" includes both quantifiable and non-quantifiable or intangible costs and benefits.

4.6.4 We will collaborate on all significant procurements (over £100k) where possible, using pre–established frameworks or developing frameworks to maximise any partnership opportunities and economies of scale where practical and beneficial to do so.

4.6.5 Procurements savings/efficiencies will be registered on an ongoing basis, monitored in our savings register/efficiency plan and be reported through SDTs.

4.6.6 Through the Communities Programme savings and efficiencies will be demonstrated to bridge the financial deficits as identified in the Medium Team Financial Plan. Areas being considered (which will be aligned to the Networked Fire Service Partnership vision, the South West Emergency Services Collaboration workstreams and the Integrated Risk Management Plan) are:

- improvements of pump availability and contract compliance at On-Call stations
- increased staff retention at On-Call stations
- alternative Wholetime crewing options
- risk assessed capital investment programme; and
- delivery of additional partner-based safety centre facilities.

4.6.7 Through our zero-based budgeting approach for the 2019-20 budget (Summer 2018), and our business case process, service expenditure, based on need within the Service Delivery Plan (SDP) is robustly reviewed, identifying cost reductions, savings and efficiencies (cashable and non-cashable). These will be registered and monitored in our savings register/efficiency plan and be reported through SDTs.

4.7 **Effectiveness** *- the extent to which the objectives are achieved and the relationship between the intended and actual impacts of our outputs i.e. the outcomes – spending wisely.*

4.7.1 Directors and Heads of Departments (HoD) have, and will continue, to assess and evaluate their services in a comparative context with regard to collaborative and partnership working to determine whether VFM is being achieved. This will be done through the SDP. In particular, we will look at opportunities within the Networked Fire Service Partnership (NFSP), South West Emergency Services Collaboration Programme (SWESCP), our local partners (Councils, Police & Crime Commissioners (PCC), National Fire Chiefs Council (NFCC), neighbouring fire services and the fire service community).

4.7.2 Within the SDP, for each corporate priority, within the Key Lines of Enquiry (KLOE), a small but appropriate number of key corporate targets and/or key performance indicators (KPI) will also be used to demonstrate VFM. Directors/HoDs will determine what data sets or empirical evidence is available or is required, and how it will then be used, or developed, to demonstrate the tangible and intangible benefits/outcomes as a result. These key corporate targets and VFM indicators aligned to the SDP, will be recorded, updated and monitored through our performance management system (Sycle) and through SDTs.

5. Budget 2019-20 and Future Years' Forecasting

5.1 Finance Assumptions and Principles

5.1.1 The key finance assumptions and principles have been updated to ensure that they remain reflective of both our operating environment and our agreed strategic risks. Forecasts, projections and examples within this MTFP are reflective of these assumptions and principles, which were approved by Members in September 2018. They are:

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

(b) Principle 2 - Further Central Government settlement funding assessment reductions assumed at 5% per annum beyond 2019-20

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

(d) 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

(e) 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

(f) Principle 6 - the Authority supports lobbying Government to have freedoms and flexibilities for council tax increases of 3% or £5 whichever is the greater, without the need to hold a referendum

(g) 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

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

(i) Principle 9 - Any residual revenue budget gap will require funding from the use of reserves

(j) 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.

5.2 Funding

5.2.1 Funding, in this context, is about how much money the Authority receives to pay for the services it provides. The primary source of funding comes from two main areas:

- **Government Support** (grants from central Government and business rates retention from local authorities)

- **Precepts** (council tax collected from local tax payers)

Government Support

5.2.2 The latest finance settlement announced on 29 January 2019 confirmed anticipated funding reductions of 3.2% in 2019-20 (slightly higher than the four year funding settlement offer of 2.3%). Overall our Settlement Funding Assessment will have reduced from £19.436m (accumulated as two separate Authorities) in 2015-16 to £14.082m in 2019-20, representing a cash reduction of £5.354m or 28% over the period 2015-16 to 2019-20.

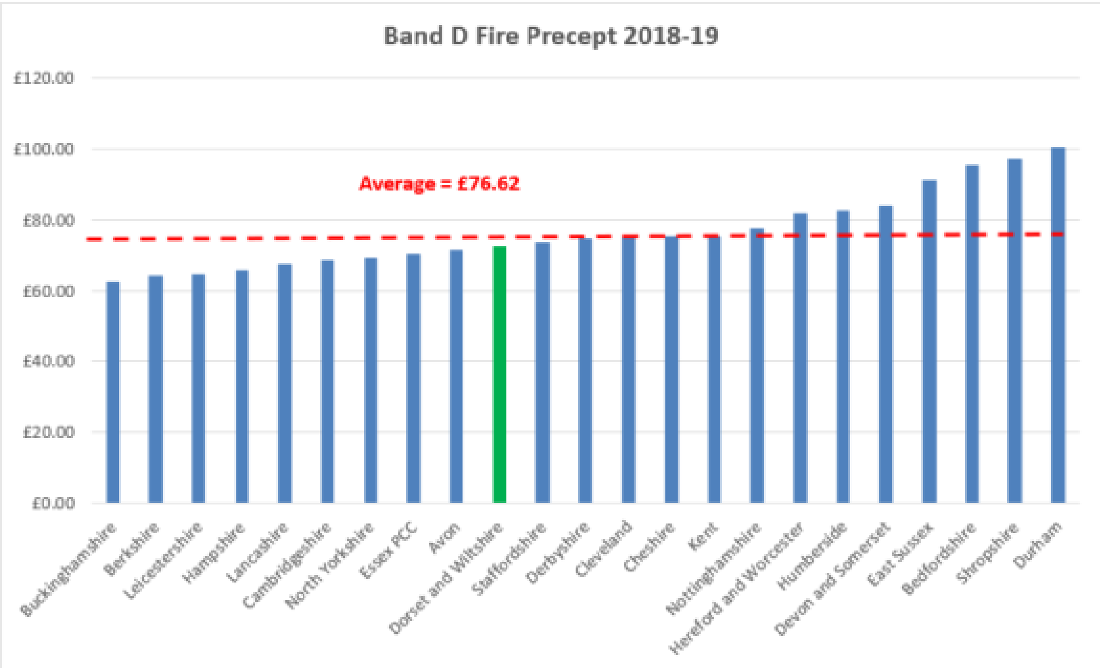
5.2.3 Although no Government announcement has been made regarding future funding beyond 2019-20, we anticipate that the current strategic direction of the Government's fiscal policies will continue. We are therefore assuming further reductions in Government funding each year from 2020-21 onwards with each 1% reduction in funding worth approximately £140k. Our assumption of a 5% reduction equates to an approximate £700k reduction in funding for 2020-21.

5.2.4 As Members will be aware, responsibility for the fire service within Government was transferred from the former Department of Communities and Local Government (DCLG) to the Home Office in January 2017. As a result of this move, the funding model for fire authorities may change in the future, but no assumptions are made for the potential changes to future funding mechanisms within the MTFP.

Precepts

5.2.5 For 2018-19, the Authority Band D fire precept was £72.70, compared to a national average for all combined fire authorities of £76.62 (see graph below).

Graph: Band D Fire Precept 2018-19 (all combined fire authorities)



5.2.6 Precept Income is levied on the collecting authorities and is based on a Band D council tax multiplied by the taxbase i.e. (the number of equivalent Band D dwellings in the area).

5.2.7 In establishing the indicative budget for 2019-20, funding from precepts to be issued to billing Authorities is estimated, based on a fire precept of £74.87 (a 2.99% increase) and a taxbase increase of 1.7%.

Table: Estimated precepts – billing Authorities

Collecting Authority	Taxbase 2019-20	Precept 2019-20 £
Bournemouth, Christchurch & Poole Council	141,772	10,614,469
Dorset Council	148,087	11,087,289
Swindon Borough Council	74,532	5,580,211
Wiltshire Council	186,013	13,926,793
TOTAL	**550,404**	**41,208,762**

5.2.8 For planning purposes in this MTFP, we assume, as per planning 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.

5.2.9 A 1% change in fire precept Band D equates to approximately £400k per annum. A 1% increase in taxbase approximates to an additional £390k per annum in precept.

5.2.10 The increase in fire precept Band D of 2.99% has been used to remain below the referendum limit which was notified last year by the Chancellor of the Exchequer, The Rt Hon Philip Hammond MP. The latest funding settlement confirmed that the core referendum threshold would be maintained at the existing level of 3% for 2019-20; while shire district councils would have a referendum principle of 3% or £5 whichever is the higher, and Police and Crime Commissioners (PCC) would have a referendum principle of a £24 increase.

5.2.11 In addition, within the last finance settlement, the Government has allowed an adult social care council tax precept of 3% with a core referendum threshold of 3%. This allowed those councils with responsibility for adult social care to guarantee additional funding of up to 6%, of which 3% would be passported to provide elderly care services.

5.2.12 It is anticipated that referendum principles will remain in operation at the 2% level for all fire and rescue authorities beyond 2019-20 as per Finance Principle 4 above.

5.2.13 Given the assumptions for increases in taxbase and fire precept Band D, funding from Precepts is estimated as follows:

Table: Estimated Funding from Precepts

	2018-19	2019-20	2020-21	2021-22	2022-23
	Actual	Estimated	Estimated	Estimated	Estimated
Band D increase (%)	2.99	2.99	1.99	1.99	1.99
Taxbase increase (%)	1.91	1.69	1.50	1.50	1.50
Taxbase	541,239	550,404	558,660	567,040	575,546
Fire Precept (£)	72.70	74.87	76.36	77.88	79.43
Precept (£m)	39.348	41.209	42.659	44.161	45.716

5.2.14 Traditionally the collecting authorities have, in the majority of cases, reported accumulated collection fund surpluses primarily due to better than expected collection rates. Deficits can also occur, so for planning purposes prudence suggests that a relatively small allowance should be assumed for collection fund surpluses e.g. £250k per annum (Principle 7).

5.2.15 In summary, the table below shows the total funding assumed to 2022-23 based on finance principles and assumptions in para 5.1.1 above:

Table: Estimated Total Funding

	2018-19	2019-20	2020-21	2021-22	2022-23
	Actual	**Estimated**	**Estimated**	**Estimated**	**Estimated**
	£m	**£m**	**£m**	**£m**	**£m**
Precept	39.348	41.209	42.659	44.161	45.716
Coll Fund Surplus	0.629	0.554	0.250	0.250	0.250
Revenue Support Grant	4.493	3.795	3.606	3.425	3.254
Baseline Funding Level	10.056	10.287	9.772	9.283	8.819
TOTAL	**54.526**	**55.845**	**56.287**	**57.119**	**58.039**

5.3 Pay Costs

5.3.1 Pay and pensions expenditure accounts for approximately 80% 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 Our plans assume 2% pay awards for all staff groups, and this is considered prudent given successive years of pay restraint, inflation forecasts and the consequential pressure on wage demands. National negotiations on the role of the firefighter, and required pay levels continue, and represent a potential financial risk.

5.3.3 The table below summarises the indicative additional costs of 2% pay awards over the life of this MTFP.

Table: Impact of 2% pay awards

	2019-20	2020-21	2021-22	2022-23
	Estimated	**Estimated**	**Estimated**	**Estimated**
	£m	**£m**	**£m**	**£m**
Cost of Pay Award	0.860	0.870	0.880	0.900

5.3.4 The cost of underestimating pay awards by 1% equates to approximately £430k to £450k for a full year. The cost of pay awards is a significant risk factor for our budget and is therefore included in our risk assessment of our General Reserves and Balances, although this will only cover the in-year cost and will not account for the cumulative effect in subsequent years.

5.3.5 The cost of firefighters' pensions is increasing. In late 2018 we were notified of the Government Actuary's Department (GAD) latest valuation of the firefighters' pension fund. Whilst we are still waiting for confirmation of employer contribution rates for 2019-20 onwards, we do know that costs will be increasing significantly. The Government has agreed to fund 90% of the additional costs in 2019-20 by way of Section 31 grant funding, but funding beyond 2019-20 has yet to be determined. The Government has indicated that this will be part of the 2020-21 settlement. Our grant for 2019-20 has been estimated at £2.3m.

5.4 Other Inflationary Commitments

5.4.1 The level of general inflation in the economy as a whole is growing and we continue to see price pressures in fire specific cost areas. We also need to apply inflation increases to budgets where there is a contractual or legal commitment or for items beyond our control, such as business rates and utility costs. The total amount that has been allowed for contractual inflation in future years is approximately £200k each year.

5.5 Medium Term Forecast

5.5.1 The table below shows updated projections of the Authority's budget requirement from 2019-20 to 2022-23 based on financial principles and assumptions (Section 5.1.1 above) and with the following additional spending proposals:

- Additional investment of £500k in 2019-20 for succession planning, i.e. over recruiting in advance of staff leaving the organisation through retirement and other reasons, to ensure business continuity, maintenance of key skills and organisational development
- Savings on Wholetime crewing efficiencies in 2019-20 of approximately £900k, with further work being undertaken to deliver additional savings

- Net departmental transition cost adjustments aligned to managing strategic risks
- Additional uniformed pension costs re: reassessment of Government Actuary's Department (GAD) discount factors, however beyond 2019-20 the position is less clear
- One-off spending over the next few years, funded from earmarked reserves

Table: Estimated Revenue Budget 2019-20 to 2022-23

	2018-19	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Revenue Budget	**£m**	**£m**	**£m**	**£m**	**£m**
- Employees	43.508	46.580	46.802	47.460	48.330
- Premises	3.337	3.884	3.979	4.048	4.117
- Transport	1.542	1.455	1.466	1.474	1.478
- Supplies & Services	4.727	4.893	5.042	5.068	5.136
- Contract Out Services	2.138	2.307	2.296	2.320	2.326
- Democratic Rep	0.103	0.094	0.094	0.094	0.094
- Capital Financing/ Leasing	2.968	3.338	3.877	4.434	4.725
- Reserve Transfers	-0.264	-0.470	-0.260	0.006	0.211
- Income	-3.533	-6.236	-6.067	-6.121	-6.175
Service Budget Requirement	**54.526**	**55.845**	**57.229**	**58.783**	**60.242**

5.5.2 Current spending plans do not yet include the ongoing costs of the Emergency Service Mobile Communications Project (ESMCP), a national project designed to replace the current 'Airwave' system with significant technological improvements which is due to be delivered in our South West region until such time it becomes clearer by the end of 2019. Associated one off project management and equipment costs are estimated at £1m and will be funded from set aside funds in an earmarked reserve.

5.5.3 Looking beyond 2019-20, based on our funding assumptions and forecast spending plans we have indicative funding deficits of £0.942m rising to £2.203m between 2020-21 and 2022-23 respectively:

Table: Indicative Funding Gaps/Deficits

	2018-19	**2019-20**	**2020-21**	**2021-22**	**2022-23**
	Budget	**Estimated**	**Estimated**	**Estimated**	**Estimated**
	£m	**£m**	**£m**	**£m**	**£m**
Service Budget Requirement	54.526	**55.845**	**57.229**	**58.783**	**60.242**
Total Funding	-54.526	**55.845**	**56.287**	**57.119**	**58.039**
Budget Gap (deficit)	**0.000**	**0.000**	**-0.942**	**-1.664**	**-2.203**

5.5.4 To bridge the indicative budget deficits, the Service will use its general balances, transformation reserves and other earmarked reserves to support Service transformation and the associated transition costs; and look to find further reductions in budgets and/or cost efficiencies through the Communities Programme.

5.5.5 Members will be familiar with elements of the Communities Programme which will aim to bridge the financial gap in revenue funding by developing working practices that are more efficient while maintaining firefighter safety. The agreed principles for the Communities Programme are that:

- there will be no significant increase in risk to the community
- there will be no compromise to firefighter safety
- collaboration will be at the heart of all thinking
- effective consultation and engagement will be a key part of the programme
- we will look beyond existing terms and conditions
- we will be more innovative and less risk averse
- we will look broader than traditional FRS activities
- non-statutory response activities should be cost neutral
- we will mobilise sufficient resources to ensure safe systems of work

5.5.6 General balances (see section 7.2) include the current 2018-19 forecast underspending of £200k. This results mainly from difficulties in recruiting and retaining staff to the desired staffing levels, which is being addressed, and a number of unexpected one-off amounts. The impact of this provides some flexibility in use of balances to deliver future efficiency savings and enhance service provision.

5.5.7 Taking all of the details above into account, the Service budget requirement for 2019-20 is anticipated to be £55.845m. 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) as per 5.1.1 above, together with an expectation that continued funding will be made available to meet our increased employer pension costs. Without the continued pension funding, deficit forecasts will be significantly higher, as shown below.

Table: Indicative Funding Deficits, without continued funding - employer pension costs

	2018-19	**2019-20**	**2020-21**	**2021-22**	**2022-23**
	Budget	**Estimated**	**Estimated**	**Estimated**	**Estimated**
	£m	**£m**	**£m**	**£m**	**£m**
Net Budget Requirement	54.526	**55.845**	**59.561**	**61.162**	**62.669**
Total Funding	54.526	**55.845**	**56.287**	**57.119**	**58.039**
Budget Gap (deficit)	**0.000**	**0.000**	**-3.274**	**-4.043**	**-4.630**

5.5.8 The budget for 2019-20 is balanced by making a contribution to general balances and reserves. This provides opportunities for service development, and the ability to address some issues and concerns that could alleviate pressures on future revenue budgets, especially:

- developing and delivering savings through the Communities Programme, looking at further options for crewing reviews
- continuing to invest in the improvement in availability and response of the On-Call Duty System, addressing the sustainability of the On-Call Duty System; and
- reducing the need for prudential borrowing, thereby reducing the pressure on revenue budgets.

6. Capital Expenditure and Financing

6.1 Capital Expenditure Programme

6.1.1 The capital programme, covering the anticipated revised programme for 2018-19 and requirements through to 2022-23 is shown in the table below. The revised amounts shown for 2018-19 include projects carried forward from 2017-18 and anticipated in-year changes to the programme.

6.1.2 The programme for 2018-19 also assumes the use of the capital replacement reserves of £3.690m and capital receipts £1.103m. The impact of this is to save between £350k and £400k in the revenue capital financing charge.

6.1.3 The capital programme for 2019-20 totals £8.404m, the majority of which will require funding through prudential borrowing.

Table: Capital Programme

	2018-19	2019-20	2020-21	2021-22	2022-23
	Revised	Indicative	Indicative	Indicative	Indicative
Capital Budget	**£m**	**£m**	**£m**	**£m**	**£m**
Property/Estates	2.129	1.329	1.288	1.238	1.150
Vehicles	4.240	5.608	4.111	3.681	1.687
Equipment	1.026	0.918	0.105	0.105	1.756
ICT	0.911	0.549	1.246	0.225	0.560
Total	**8.306**	**8.404**	**6.750**	**5.249**	**5.513**
Financed By					
Prudential Borrowing	3.513	8.137	6.468	5.216	5.513
Capital Reserves	3.690	0.000	0.000	0.000	0.000
Grants/Other Reserves	0.000	0.267	0.282	0.033	0.000
Capital Receipts	1.103	0.000	0.000	0.000	0.000
Total	**8.306**	**8.404**	**6.750**	**5.249**	**5.513**

6.1.4 The 2019-20 capital programme includes provision for 15 large fire appliances, as part of our current vehicle replacement plan, with a further 14 large fire appliances being replaced over the following three years. A wider review of fleet has been completed to update the current vehicle replacement programme.

6.1.5 The programme for 2018-19 and 2019-20 included a major refresh of personal protective equipment, circa approximately £1.6m. Breathing Apparatus will also be required to be replaced in a major refresh in 2022-23 at a similar cost of circa £1.6m.

6.1.6 The programme also incorporates ongoing ICT requirements as determined by the 'ICT Roadmap' and this includes IT hardware and software replacements, communications equipment, systems and infrastructure.

6.1.7 Also included in the capital programme are the outcomes of a property conditions survey, identifying the property assets in most need of attention now and over the next few years.

6.2 Financing the Capital Programme

6.2.1 The table in 6.1.3 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.

6.2.2 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 service revenue budget requirement includes provision for the costs of prudential borrowing as indicated in the table above.

6.2.3 Given our level of reserves and balances we have used surplus cash balances as a temporary measure to fund previous years' capital programmes, but we anticipate with our current capital programme that we will borrow £7m before 31 March 2019 to reduce the level of under borrowing to approximately £9m.

6.2.4 In the short term this under borrowing has resulted in annual budget savings of around £675k per annum, based on an interest rate of 3.5% and debt repayment of 4%. Such a position is not sustainable in the longer term, particularly as our reserves and balances are utilised to support the MTFP, eroding the level of cash balances we hold.

6.2.5 Within the Revenue Budgets for 2018-19 to 2022-23 (included in the table in para 5.5.1, under capital financing) are the costs of prudential borrowing in respect of the previous years' capital programmes i.e. 2020-21 will include the capital financing costs of any prudential borrowing required (currently estimated £8.137m) in respect of the 2019-20 capital programme.

6.2.6 Future capital requirements arising from the Communities Programme, in particular around assets (i.e. stations and vehicles), will impact on 2020-21 and beyond. Therefore, it is anticipated that programmes identified in 2020-21 and beyond will be adjusted to reflect any new requirements following the outcomes of the Communities Programme.

6.2.7 Beyond 2018-19, the capital programme will be predominantly funded through prudential borrowing as all other available capital funding resources would have been exhausted.

7. Reserves Strategy

7.1 The 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 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, precepting authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

7.2.2 Best practice on the use and management of reserves and balances is provided by CIPFA and the Local Authority Accounting Panel (LAAP) guidance, specifically LAAP Bulletin 99 - 'Local Authority Reserves and Balances'. This was issued in July 2014, but since then many references have been made to the scale of public sector reserves by various parties.

7.2.3 In May 2018 the Government published the New Fire and Rescue Services Framework which introduces a requirement for Combined Fire and Rescue Authorities to publish a Reserve Strategy on their website and outlined the detail which should be included. The Reserves Strategy forms part of our Medium Term Financial Plan.

7.3 Strategic Context

7.3.1 There are a number of reasons why an Authority might hold reserves, these include to:

(a) mitigate potential future risks such as increased demand and costs
(b) help absorb the costs of future liabilities
(c) temporarily plug a funding gap should resources be reduced suddenly
(d) enable the Authority to resource one-off policy developments and initiatives without causing an unduly disruptive impact on Council Tax; and
(e) spread the cost of large-scale projects which span a number of years.

7.3.2 Reserves only provide one-off funding so the Authority aims to avoid using reserves to meet regular and ongoing financial commitments, other than as part of a sustainable medium-term budget plan.

7.3.3 **Long-Term Sustainability -** Reserves are an essential tool to ensure long term budget stability particularly at a time when the Authority is facing significant year on year reductions in grant funding over the medium term.

7.3.4 Reserve balances have been identified as a key indicator of financial health and the Authority continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget requirements and provide an adequate contingency for budget risks.

7.3.5 There are two different types of reserve, and these are:

(a) ***General Balances*** – This Reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

(b) ***Earmarked Reserves*** – These reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all the agreed funds are required then unused earmarked reserves will be returned to General Balances.

7.3.6 ***Provisions*** are also held in addition to reserves providing funding for a liability or loss that is known with some certainty to be expected to occur in the future, but the timing and amount is less certain.

7.4 Risk Assessment to Determine the Adequacy of General Balances

7.4.1 As a well-managed Authority, we strive to maintain as low a level of General Balances as possible whilst still covering our financial risks. The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. That said, given the high level of influence that third parties, such as the local government employers and government departments have on its income and expenditure, there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for.

7.4.2 The Authority has set a performance indictor for General Balances at 5% of annual budget which is a commonly used benchmark across the fire sector. At the start of 2019-20, General Balances are expected to represent approximately 5% of the Authority’s net revenue budget which is a positive variance (Principle 10). Due to varying revenue budgets, maintaining a consistent level of General Balances will result in the percentage varying over time. Any amount in excess of £2.5m or 5%, whichever will be transferred to the earmarked transformational improvement reserves.

7.4.3 The performance indicator is a useful control measure but is a rudimentary way of assessing the adequacy of General Balances but supplementary to this approach is to provide a risk assessment. The Authority considers both measures as part of its annual reserve strategy.

7.4.4 A risk assessment of the adequacy of the Authority's General Balances is carried out annually to determine the extent to which the Authority is exposed to uninsured and unbudgeted losses. The risk assessment for the coming financial year, 2019-20, has been prepared as part of the budget setting process and is shown in Annex 1. The impact and scale of potential losses has been estimated to calculate a potential net financial impact of £2.85m. At the start of 2019-20 General Balances are expected to be £2.7m and therefore it will not be necessary to amend the amount based on the current risk assessment as the difference is not considered material.

7.4.5 Taking into account applications and transfers expected over the next few years to 2022-23, available general balances are estimated to amount to around £2.9m (policy is to maintain at 5% or £2.5m whichever is the higher).

Table: Projected General Balances

	2018-19 Estimated £m	**2019-20 Estimated £m**	**2020-21 Estimated £m**	**2021-22 Estimated £m**	**2022-23 Estimated £m**
Balances at 1 April	**6.686**	**2.726**	**2.792**	**2.814**	**2.856**
Predicted underspend 18-19	0.200	-	-	-	-
Approved use 18-19	-0.325	-	-	-	-
To (-) / from (+) transformational reserves	-3.835	0.066	0.022	0.042	0.046
Balance at 31 March	**2.726**	**2.792**	**2.814**	**2.856**	**2.902**

7.5 Annual Review of Earmarked Reserves

7.5.1 The Authority has a number of earmarked reserves which have been established for specific purposes where there have been timing differences at budget setting or year end, or emerging risks or cost pressures. The relevance of, and balance in, each of these is reviewed annually and the Authority is informed of the latest plans for the balances held in such reserves. As part of the annual review of reserves 2019-20, earmarked reserves are presented in broad categories and analysed as outlined below.

Earmarked Reserves – Investment for Improvement

7.5.2 A significant amount of funding has been set aside in reserves to support the change activity of the Authority through the delivery of the Community Safety Plan. 'Investment for improvement' reserves will be used to invest in transformation projects and the development of our people which will support the modernisation of the Service. If restructure is required, reserve funding will be used to pay for associated redundancy and restructuring costs.

7.5.3 These 'Investment for Improvement' reserves, which are subject to regular review, are detailed below:

Table: Investment for Improvement

	Balance 1 Apr 18 £m	**Forecast spend 18-19 £m**	**Forecast Balance 31 Mar 19 £m**	**Forecast spend 19-20 to 22-23 £m**	**Forecast Balance 31 Mar 23 £m**
Transformational Improvement	2.083	4.201	**6.284**	-5.204	**1.080**
Youth Intervention	0.100	-0.031	**0.069**	-0.069	**0.000**
Leadership & Org Development	0.306	0.000	**0.306**	-0.289	**0.017**
Apprenticeships	0.096	0.000	**0.096**	-0.096	**0.000**
TOTAL	**2.585**	**4.170**	**6.755**	**-5.658**	**1.097**

7.5.4 Unless significant savings are identified from projects over the medium term, there will be a requirement to draw down against the transformation improvement reserves. The next iteration of the Reserves Strategy will include further detail on the impact of the outcomes of the Communities Programme which will in turn identify remaining budget pressures. At the moment, it is forecast that the transformation improvement reserves will be approximately £1m at the end of the MTFP period.

Earmarked Reserves - Capital Replacement and Development

7.5.5 At £3.690m, the Capital Replacement Reserve is one of the largest of the Authority's earmarked reserves. The Authority has had a strategy in place to reduce borrowing and use its available cash balances to fund capital expenditure and reduce its capital financing costs as a result. This however means the Authority is significantly under-borrowed by approximately £9m.

7.5.6 Borrowing for capital purposes currently stands at approximately £10.8m and the level of debt is reviewed periodically to identify opportunities to pay off loans where there would be a long term benefit, however this is dependent on economic conditions.

7.5.7 Currently it is forecast that the Capital Replacement Reserve will be fully utilised in 2018-19. Future capital programmes therefore will need to rely on prudential borrowing or specific resources identified. If there is a need for further investment in our estate, infrastructure, vehicles and equipment above that already identified in our replacement programmes any additions to this reserve will help to fund the acquisition or enhancement, subject to long-term affordability.

7.5.8 Planning for the Capital Programme is undertaken as part of the annual budget setting programme and so each year the Authority will have the opportunity to review the funding options of the programme. The forecast use of capital replacement reserves will be determined by that programme. Given that it is prudent to maintain the long-term strategy to reduce, ideally remove, reliance on external borrowing to fund capital expenditure, a healthy level of reserves will be maintained wherever possible.

Table: Capital replacement and development reserves

	Balance 1 Apr 18 £m	**Forecast spend 18-19 £m**	**Forecast Balance 31 Mar 19 £m**	**Forecast spend 19-20 to 22-23 £m**	**Forecast Balance 31 Mar 23 £m**
Planning Gain	0.270	0.138	**0.408**	-0.408	**0.000**
Capital Replacement	3.690	-3.590	**0.100**	0.400	**0.500**
TOTAL	**3.960**	**-3.452**	**0.508**	**-0.008**	**0.500**

Earmarked Reserves - Specific Projects

7.5.9 The Authority may establish earmarked reserves for items which have been identified through a business case, to address a specific risk or complete a specific project. These may form part of the planning cycle, either addressing a risk or maintaining the status quo rather than being potential improvement activities. Expenditure will normally be spread over several financial years but there may be instances where a longer-term risk has been identified and provided for which may exceed the MTFP period.

7.5.10 These one-off reserves will be reviewed annually and either utilised, maintained or enhanced. Any unspent funds remaining at the end of any specific projects may be transferred to an alternative reserve, such as Investment, for Improvement or Capital Replacement Reserve.

Table: Specific Projects Reserves

	Balance 1 Apr 18 £m	**Forecast spend 18-19 £m**	**Forecast Balance 31 Mar 19 £m**	**Forecast spend 19-20 to 22-23 £m**	**Forecast Balance 31 Mar 23 £m**
Service Control	0.558	-0.057	**0.501**	-0.501	**0.000**
ESMCP	0.945	-0.055	**0.890**	-0.890	**0.000**
Emergency Medical Response	0.200	0.000	**0.200**	-0.200	**0.000**
Safety Centre Matched Fund	1.000	-1.000	**0.000**	0.000	**0.000**
TOTAL	**2.703**	**-1.112**	**1.591**	**-1.591**	**0.000**

7.5.11 Explanation of specific project reserves:

(a) ***Service Control Reserve*** – The Authority is part of a tri-service initiative through our Networked Fire Service Partnership with Devon & Somerset FRS and Hampshire FRS for the provision of Control functions. This reserve was set up to meet the longer transitional costs of joining up of the former two Control functions of the former Dorset and former Wiltshire & Swindon Fire Authorities in August 2015, at its current location in Potterne.

(b) ***Emergency Services Mobile Communications Programme (ESMCP)*** – The Authority has committed to be part of the ESMCP national project which provides the technology and network to allow Emergency Services a dedicated method of communication whilst being more financially efficient than its predecessor. Whilst funding has been allocated on a regional basis there is a need to support the project beyond the funding (which has been allocated for discrete time periods) because of the South West region being the last to transition, which is why the reserve was established. The national project is currently under scrutiny of the Public Accounts Committee and may be subject to change or cancellation. If cancelled, there is a risk that the current Airwave facility will cost the Authority more although, at this stage that cannot be quantified.

(c) ***Emergency Medical Response*** – Members approved the establishment of these reserves as start up funding to support the costs of trialling new approaches to Emergency Medical Response.

(d) ***Safety Centre Matched Funding –*** Matched funding was set aside for the development of a Safety Centre facility in the north of the region. The project was formally ceased in December 2018 and the balance has been transferred to transformation improvement reserves.

Earmarked Reserves – Other Reserves

7.5.12 Some reserves are earmarked for supporting any shortfalls in future revenue budgets which are identified during the development of the MTFP.

7.5.13 These earmarked reserves, which are subject to regular review, are detailed in the table below:

	Balance 1 Apr 18 £m	**Forecast spend 18-19 £m**	**Forecast Balance 31 Mar 19 £m**	**Forecast spend 19-20 to 22-23 £m**	**Forecast Balance 31 Mar 23 £m**
Ill -Health Retirement	0.434	-0.200	**0.234**	-0.200	**0.034**
Hydrants	0.119	0.000	**0.119**	-0.119	**0.000**
Insurance	1.128	-0.150	**1.278**	-0.400	**0.878**
Safeguarding	0.012	-0.012	**0.000**	0.000	**0.000**
Leasing Rental	0.666	-0.085	**0.581**	-0.340	**-0.241**
TOTAL	**2.359**	**-0.147**	**2.212**	**-1.059**	**1.153**

Unused Grants Reserves

7.5.14 These reserves relate to grants given to the Authority which have either not been fully spent or have been received in advance of the intended expenditure period. Where a grant has been received in advance, the Authority’s policy and accounting rules dictate that the funding be transferred to an earmarked reserve to be spent in future years. Specifically, timing differences have arisen from Government and other granting bodies relating to Prevention, funding for National Resilience, Fire Control Project, Transformation and Emergency Services Mobile Communications Project. The Authority has a commitment to the expenditure in the following financial years and therefore the funding will be transferred out of these unused grants reserves and in to the revenue budget.

7.5.15 Other smaller grants will be reviewed annually as part of the budget monitoring process to assess whether they are still needed. It is not anticipated that any of the current balances will be carried forward beyond the medium term financial plan.

Table: Unused Grants Reserves

	Balance 1 Apr 18 £m	Forecast spend 18-19 £m	Forecast Balance 31 Mar 19 £m	Forecast spend 19-20 to 22-23 £m	Forecast Balance 31 Mar 23 £m
Prevention	0.484	-0.078	**0.406**	-0.406	**0.000**
National Resilience	0.296	-0.059	**0.237**	-0.237	**0.000**
Networked Fire Service Partnership (NFSP)	0.441	-0.300	**0.141**	-0.141	**0.000**
Transformation Grant	2.174	-0.297	**1.877**	-1.877	**0.000**
Emergency Services Mobile Communication Project (ESMCP)	0.400	-0.200	**0.200**	-0.200	**0.000**
Other small grants	0.210	-0.087	**0.123**	-0.123	**0.000**
TOTAL	**4.005**	**-1.021**	**2.984**	**-2.984**	**0.000**

7.6 **Summary – Projected Reserve Balances**

Table: Summary Projected Reserve Balances

	Balance 1 Apr 18 £m	Forecast spend/ Transfers 18-19 £m	Forecast Balance 31 Mar 19 £m	Forecast spend 19-20 to 22-23 £m	Forecast Balance 31 Mar 23 £m
General Reserves	**6.686**	**-3.960**	**2.726**	**0.176**	**2.902**
Earmarked Reserves					
Investment for improvement	2.585	4.170	**6.755**	-5.658	**1.097**
Capital Replacement & Development	3.960	-3.452	**0.508**	-0.008	**0.500**
Specific Projects	2.703	-1.112	**1.591**	-1.591	**0.000**
Other Reserves	2.359	-0.147	**2.212**	-1.059	**1.153**
Sub-total Earmarked Reserves	**11.607**	**-0.541**	**11.066**	**-8.316**	**2.750**
Unused Grants Reserves	**4.005**	**-1.021**	**2.984**	**-2.984**	**0.000**
TOTAL	**22.298**	**-5.522**	**16.776**	**-11.124**	**5.652**