



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Item 19/06

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	12 February 2019
SUBJECT OF THE REPORT	Budget and Precept Implications 2019-20
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For consideration and approval
EXECUTIVE SUMMARY	<p>This report sets out the revenue and capital budget requirements for 2019-20, based on the financial principles agreed by Members in September 2018. In spite of efforts to lobby for a £5 de-minimis increase in the fire precept, the Final Settlement only allows a 2.99% increase for fire authorities for the coming year. This results in a Band D Fire Precept of £74.87, an increase of only £2.17 (or 4p per week).</p> <p>Based on the final finance settlement, our overall level of Government funding, the Settlement Funding Assessment shows a decrease of £467k or 3.2% compared to 2018-19. This is in line with our expectations but remains one of the highest funding reductions for combined fire authorities.</p> <p>We have also included provisional sums in respect of business rates income as at the time of writing this report final confirmation of amounts had not been received from the billing authorities. Any adjustment to the final figures will be made through general balances.</p> <p>The revenue budget requirement for 2019-20 is £55.845m as set out in section 3 of the report and the capital programme totals £8.404m.</p>

RISK ASSESSMENT	<p>The Dorset & Wiltshire Fire and Rescue Authority (the Authority), through its Medium Term Finance Plan (MTFP), is able to achieve a sustainable budget position for 2019-20, within the context of the Government's fiscal policy.</p> <p>The uncertainty of the funding mechanism remains a concern, particularly with the Fair Funding Review currently taking place and the prospects of the Spending Review in 2019.</p> <p>There is also a specific risk in relation to costs and funding for the firefighters' pension scheme, following the Government Actuary's Department's most recent valuation exercise. Employer costs are expected to increase significantly, and whilst funding for 90% of the additional costs has been made available for 2019-20, no decisions have yet been made on funding for future years.</p>
COMMUNITY IMPACT ASSESSMENT	The impact assessment was considered as part of the final business case for combination.
BUDGET IMPLICATIONS	These are contained within the body of the report.
RECOMMENDATIONS	<p>It is recommended that the Authority:</p> <ol style="list-style-type: none"> 1. Approve the revenue budget of £55.845m and capital budget of £8.404m for 2019-20. 2. Approve the basic amount of Band D Fire Precept for the Dorset & Wiltshire Fire and Rescue Authority at £74.87. 3. Authorise the Treasurer to issue precept notices on the Bournemouth, Christchurch and Poole Council, Dorset Council, Wiltshire Council and Swindon Council. 4. Approve the Medium Term Finance Plan 2019-20 to 2022-23.
BACKGROUND PAPERS	2019-20 Provisional Local Government Finance Settlement, Ministry of Housing, Communities and Local Government (MHCLG), 13 December 2018
APPENDICES	<p>Appendix A - Financial Summary 2019-20</p> <p>Appendix B - Precept Requirements 2019-20</p> <p>Appendix C - Reserves</p>

	Appendix D - Medium Term Finance Plan 2019-20 to 2022-23 Appendix D - Annex 1: General Balances & Reserves – Risk Assessment 2019-20
REPORT ORIGINATOR AND CONTACT	Name: Phil Chow, Director of Finance and Treasurer Email: phil.chow@dwfire.org.uk Tel: 01722 691071

1. Introduction

- 1.1 This report provides the final position for the revenue and capital budget requirements for 2019-20. The budget and Band D Fire Precept recommendations are based on the Financial Principles approved by the Authority in September 2018.
- 1.2 There are a number of issues and financial implications presented to the Authority in this report, and these are based on best information and professional forecasts. At the time of writing the report we have used provisional sums in respect of business rates income, whilst we await final confirmation of amounts from the billing authorities. Billing authorities are required to notify us by the 31 January 2019.

2. Funding Issues

2.1 Local Government Finance Settlement 2019-20

- 2.1.1 The provisional finance settlement for 2019-20 was published on 13 December 2018 and, following a four-week consultation period ending 10 January 2019 the final finance settlement was announced on 29 January 2019. It provided details on the Settlement Funding Assessment (SFA). No changes were made.
- 2.1.2 The SFA consists of estimates of the local share of business rates (the Baseline Funding Level (BFL)) and Revenue Support Grant (RSG). The final figure for this Authority's SFA for 2019-20 is £14.082m.
- 2.1.3 This is a reduction of £467k or 3.2% compared to the SFA for 2018-19 but is in line with our expectation from the 2018-19 settlement. The SFA includes RSG funding of £3.796m and a BFL, under the Business Rates Retention (BRR) Scheme of £10.286m.

Table 1 – Settlement Funding Assessment	2019-20 £m	2018-19 £m	Difference £m
Total SFA	14.082	14.549	-0.467
<i>made up of:</i>			
- Revenue Support Grant	3.796	4.493	-0.697
- Baseline Funding Level	10.286	10.056	0.230

- 2.1.4 The reduction of 3.2% is the fourth highest funding reduction when comparing all combined fire authorities; the average reduction was 2.7%.
- 2.1.5 The BFL is split between an assumed level of business rates income and a top up grant payment from the Government. The top up grant for most authorities is increased each year in line with inflation. The actual amount of business rates income received is subject to some uncertainty and is only confirmed in late

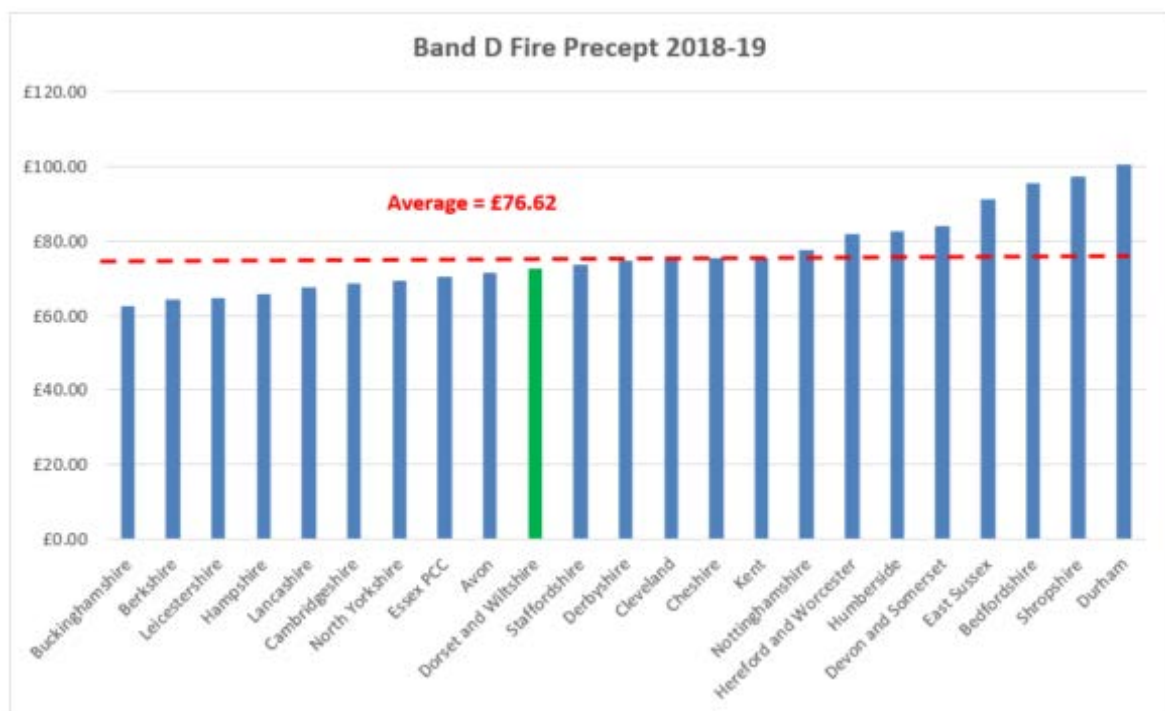
January by the local billing authorities. For 2018-19 actual receipts were £75k less than assumed in the SFA.

2.1.6 The Government is distributing £180m of levy account income back to local authorities in the form of Section 31 grant funding. The levy account is part of the operation of the BRR scheme, with some authorities paying a levy on the growth in their business rates. This levy is designed to meet the cost of safety net payments for those authorities that see a decline in their income below certain thresholds. Our share of this distribution is £158k.

2.2 Fire Precept

2.2.1 The Authority has a history of being a low funding, low spending authority. The low level of funding inevitably places pressure on levels of fire precept. Our 2018-19 fire precept figure of £72.70 compares to a national average for all Combined FRAs of £76.62 (see Chart 1 below).

Chart 1: Band D fire precept 2018-19 (all combined fire authorities)



2.2.2 Raising our precept to the 2018-19 national average level of £76.62 would require an increase of £3.92 or 5.4%, breaching the current referendum threshold, but well within a £5 de-minimis increase.

2.2.3 In respect of referendum principles, the finance settlement for 2019-20 announced:

- a core principle of up to 3% for shire county councils, unitary authorities, London borough councils, the Common Council of the City of London, the Council of the Isles of Scilly, the general precept of the Greater London Authority, and fire and rescue authorities
- 2% additional flexibility for Adult Social Care authorities
- 3%, or up to and including £5, whichever is higher, for shire district councils in two-tier areas
- An increase of up to £24 in 2019-20 for police and crime commissioners.

2.2.4 Total fire precept funding is also dependent on increases in the taxbase, i.e. the number of Band D equivalent households in the Authority area. On average across the whole of the Authority area our taxbase for 2019-20 has risen by approximately 1.7%, slightly above our 1.5% assumption.

2.2.5 There are also one-off collection fund surpluses and deficits held by the billing authorities, which offset or add to the amount of council tax income collected each year. In total, these amount to £554k for 2019-20. These amounts should be considered as one-off windfalls and not wholly relied upon over the medium term. For future years the MTFP assumes collection fund surpluses of £250k each year, in line with the agreed Financial Principle.

2.3 Funding Summary

2.3.1 In view of the final finance settlement, the lack of a £5 de-minimis option for increasing the fire precept and the medium term financial projection, Members are asked to approve increasing the Band D Fire Precept by 2.99%, i.e. below the 3% referendum threshold and in line with Government expectations.

2.3.2 On that basis, the projected level of funding available for 2019-20 is £55.845m as shown in table 2 below. If the level of fire precept was to be frozen at the 2018-19 amount of £72.70 total funding would be £1.195m less, at £54.650m, significantly impacting on long-term financial sustainability.

Table 2 - Total Funding 2019-20

Taxbase	550,404
Band D Fire Precept (£)	£74.87
Fire Precept (£m)	41.209
Collection Fund Sur/Def (-) (£m)	0.554
Revenue Support Grant (£m)	3.795
BRR and Top Up grant (£m)	10.287
Total Funding (£m)	55.845

3. Budget Requirement 2019-20

- 3.1 In determining the 2019-20 budget requirement there are several influencing factors outside of the issues around precepts and Government funding. The main factors are considered below.
- 3.1.1 Staffing costs represent a significant element of the overall budget requirement. 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.
- 3.1.2 As Members are aware, 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.
- 3.1.3 Inflationary and contractual increases on non-pay budgets amount to approximately £200k per annum.
- 3.1.4 Lease negotiations are continuing with the Defence Infrastructure Organisation (Ministry of Defence), to allow continued occupation at the West Moors Training Centre facility in Dorset for the next five years. This is progressing well, and a provisional rental sum has been included in the budget, although we are also exploring an option for a discounted rental cost in return for paying a one-off upfront payment. If this option is agreed funding would come from the provisional rental sum included in the budget and the use of transformation reserves.
- 3.1.5 Our overall budget position is £750k better than expected as a result of the £158k one off levy account distribution referred to in 2.1.6 above, along with the favourable taxbase and collection fund surplus figures. An excess surplus of £615k has therefore been added to transformation improvement reserves meaning the strain on transformation reserves is less than expected in 2019-20.
- 3.2 Taking all the changes into account, the Net Budget Requirement for 2019-20 is £55.845m as summarised below:

Table 3 – Budget Requirement 2019-20		Service Budget 2019-20 £m
Revenue Budget		
- Employees		46.580
- Premises		3.884
- Transport		1.455
- Supplies & Services		4.893
- Agency & Contracted Out		2.307
- Democratic Representation		0.094
- Capital Financing/Leasing		3.338
- Income		-6.236
- Transfers to/from Reserves		-0.470
Net Budget Requirement		55.845

4. Medium Term Finance Plan

4.1 The Medium Term Finance Plan 2019-20 to 2022-23 shown at Appendix D is also recommended for approval. The MTFP is based on the Financial Principles approved by the Authority in September 2018, current data received from our constituent authorities and Service spending proposals.

4.2 In summary, the indicative net budget deficits/surpluses are as follows:

Table 4	2019-20	2020-21	2021-22	2022-23
	£m	£m	£m	£m
Total Funding	55.845	56.287	57.119	58.039
Estimated Service Budget	55.845	57.229	58.783	60.242
Budget surplus (+)/deficit (-)	0.000	-0.942	-1.664	-2.203

4.3 This assumes increases in fire precept of 2.99% in 2019-20, and 1.99% thereafter, together with an expectation that continued funding will be made available to meet our increased employer pension costs (see 3.1.2 above). Without this continued pensions funding the deficit forecasts will be significantly higher, as shown below.

Table 5	2019-20	2020-21	2021-22	2022-23
	£m	£m	£m	£m
Total Funding	55.845	56.287	57.119	58.039
Estimated Service Budget	55.845	59.561	61.162	62.669
Budget surplus (+)/deficit (-)	0.0	-3.274	-4.043	-4.630

- 4.4 The Service will need to use its reserves and balances in order to provide a sustainable long-term financial position. Current levels of reserves provide us with the flexibility needed to manage the risks to delivering this, such as:
- the impact of the replacement national radio and communication system, known as the Emergency Services Mobile Communications Programme (ESMCP). This is still evolving, and it is not clear yet what additional costs there might be
 - strengthening our prevention, protection, response and resilience activities
 - learning from the public inquiry, and other reviews, following the Grenfell Tower tragedy in London. There are likely to be significant legislative changes particularly around fire safety. The impact for us currently is unquantifiable
 - our on-going annual capital investment
 - the Authority's integrated property asset management plan with maintenance requirements of approximately £1m per year
 - the impact of changes to national terms and conditions for uniformed staff; and
 - the sustainability of the On-Call duty system.

5. Reserves and Balances

5.1 General Balances and Reserves

5.1.1 General Balances are set aside as a safety net to cover unplanned and unbudgeted costs. 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.

5.1.2 General Balances at the start of 2018-19 amounted to £6.686m, however, these will be reduced to £2.7m for 2019-20 in line with Financial Principle 10 to maintain General Balances at 5% or £2.5m, whichever is the greater. Excess balances will be transferred to the transformational improvement reserve.

5.2 Other Earmarked Reserves

5.2.1 The Authority has a number of other reserves that are maintained to help to deal with specific risks that cannot be managed within the annual revenue budget. Further detail regarding earmarked reserves is provided in Appendix C and the Appendix D (MTFP).

6. Capital Programme

6.1 Capital Expenditure Summary

6.2 Draft capital expenditure requirements for 2018-19 to 2022-23 are shown in Table 6. The revised capital programme for 2018-19, as approved by the Authority in December 2018, totals £8.306m. The capital budget for 2019-20 recommended for approval is £8.404m.

Table 6: Capital Programme 2018-19 to 2022-23

Table 6	Revised Budget 2018-19 £m	Indicative Budget 2019-20 £m	Indicative Budget 2020-21 £m	Indicative Budget 2021-22 £m	Indicative Budget 2022-23 £m
Capital Expenditure					
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
Capital Receipts	-1.103	0.000	0.000	0.000	0.000
Other Earmarked Reserves/ Unapplied Grants	0.000	-0.267	-0.282	-0.033	0.000
TOTAL	-8.306	-8.404	-6.750	-5.249	-5.513

6.3 Property/Estates - Station Improvements

6.3.1 The 2019-20 programme includes the outcomes of a property condition's survey, identifying the property assets in most need of attention now and over the next few years, based on risk and priority. Current property budgets will not include any major station replacements or enhancements until officers have reviewed fire cover arrangements.

6.4 Vehicles

6.4.1 Vehicles are regularly reviewed and are subject to the long-term vehicle replacement policy. The 2019-20 capital programme includes the replacement requirements for 15 large fire appliances. A further 14 large fire appliances are

due for replacement over the following three years. A wider review of fleet has been completed to update the current vehicle replacement plan. Similar to the property estates review, the programme for 2019-20 is based on immediate requirements and future years are likely to change subject to the reviews.

6.5 Equipment

6.5.1 The programme for equipment is made up of operational equipment and personal protective equipment (PPE) requirements, alongside additional training equipment and equipment for the reserve vehicles. 2019-20 is the second year of a major refresh of PPE costing approximately £1.63m. Breathing apparatus will also be required to be replaced in a major refresh in 2022-23 at a similar cost of about £1.6m.

6.6 Information Technology and Communications (ICT)

6.6.1 Ongoing ICT requirements are determined by the 'ICT Roadmap' and this includes IT hardware and software replacements, communications equipment, systems and infrastructure. The next iteration of the ICT Roadmap has been developed and provides an indicative cost plan to 2022-23.

6.7 Capital Financing

6.7.1 Capital expenditure can be financed from a variety of sources, including capital receipts, direct revenue contributions, reserves, specific grants and through prudential borrowing.

6.7.2 The Service has maintained a capital reserve for several years, and this stood at £3.690m as at 1 April 2018. A further £1.103m of capital receipts was held at the same time. We expect both elements of funding to be utilised in funding the 2018-19 capital programme. Any shortfall of funding then must be made up through prudential borrowing as shown in Table 6 above.

7. Statutory Declarations

7.1 Robustness of the Estimates

7.1.1 Under Section 25 of the Local Government Act 2003, the Treasurer, as designated under Section 151 of the Local Government Act 1972 and Section 112 of the Local Government Finance Act 1988, is required to report to the Authority when setting its Band D Fire Precept on two issues:

- the robustness of the estimates included in the budget; and
- the adequacy of the financial reserves in the budget.

7.1.2 There are also a range of other safeguards aimed at ensuring local authorities do not over commit themselves financially. These include:

- The Chief Financial Officer's powers under Section 14 of the Local Government Act 1988, which requires a report to the Authority if there is or is likely to be unlawful expenditure or an unbalanced budget
- The Local Government Finance Act 1992 which requires a local authority to calculate its budget requirement for each financial year, including the revenue costs which flow from capital financing decisions. The Act also requires an authority to budget to meet its expenditure after taking into account other sources of income. This is known as the 'balanced budget requirement'; and
- The prudential code introduced under the Local Government Act 2003, which applies to capital financing and treasury management decisions.

7.1.3 Whilst budgets are based on realistic assumptions, some budgets are subject to a degree of estimating error as actual expenditure can be affected by factors outside of the Authority's control, for example major incidents. The estimates have been prepared on an incremental basis, based on existing commitments, adjusted for inflation, increments and other unavoidable cost-drivers, and taking into account variations in service provision.

7.1.4 The revenue and capital budgets can be regarded as robust. Although there are risks in the 2019-20 budget, as with any budget, those risks are manageable, and have been taken into account in advising on the level of general reserves at this time.

8. Summary & Key Points

8.1 The Service's revenue budget requirement for 2019-20 is £55.845m and the Capital Programme requirement is £8.404m.

8.2 In order to meet this budget requirement and taking into account the level of Government funding in the finance settlement, Members are asked to approve a Band D Fire Precept of £74.87. This represents an increase of £2.17 (or 4p per week). This is recommended as the most prudent and sustainable option, in the face of ongoing base budget deficits beyond 2019-20.

8.3 As an aid to financial planning Members are also requested to approve the Medium Term Finance Plan 2019-20 to 2022-23.

February 2019