



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Medium Term Finance Plan 2022-23 to 2025-26

February 2022

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1. Introduction

- 1.1 This Medium Term Finance Plan (MTFP) 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 2021 Spending Review. Although this was a multi-year Spending Review, the Local Government Finance Settlement has only provided confirmed funding for 2022-23. Future funding beyond 2022-23 is subject to the outcomes of the Governments Fair Funding Review, which is plans to consult on in the early part of 2022. We very much hope that this will provide a full, multi-year settlement, enabling us to plan for the future with much more certainty.
- 1.3 In developing our financial plans for 2022-23 onwards we have identified a number of financial scenarios. We have also ensured that our plans are reflective of the investment needs required to mitigate and manage our 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 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. Key messages

- The Authority has below average costs and have found over £6.6m of annual savings since being formed in 2016
- The Service is rated as 'Good' in all areas of Efficiency, Effectiveness and People by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services
- There are a significant number of strategic challenges facing the Authority
- Financial uncertainty, including a further one-year only financial settlement and the continuing impact of the Covid-19 pandemic on local income, makes it difficult to do meaningful medium-term planning
- Currently the Authority is forecasting budget deficits of £1.1m in 2023/24 rising to £1.8m in 2025/26
- Reserves will largely be exhausted over the lifetime of this plan unless savings are taken or income increased
- Increasing council tax flexibility remains a key issue if significant cuts are to be avoided

3. Financial context

3.1 National context

- 3.1.1 2019-20 was the fourth and final year of the settlement relating to the 2015 Spending Review. The Government has been committed to reviewing the funding mechanism for all local authorities, moving towards a new Fair Funding Formula and introducing changes to the Business Rates Retention (BRR) scheme. In terms of BRR, this was originally looking at a 100% rates retention scheme but more recently moved towards a 75% rates retention model that was due to be introduced from April 2022.
- 3.1.2 Late in 2021, the new Secretary of State, Michael Gove, announced that plans for the 75% rates retention model had been abandoned. He told Parliament that it would conflict with the Government's 'levelling up agenda' and that the Government would now "proceed with caution" on the issue. Instead, the Government will now look at the mechanism for redistributing funding to the authorities most in need, and consult on a new Fair Funding Formula in the early part of 2022.
- 3.1.3 The Government had indicated that there would be a new multi-year Spending Review taking place in 2019, but this was replaced by a fast tracked one-year Spending Round covering 2020-21 only. The coronavirus pandemic then introduced further delay, with the Spending Review 2020 providing a further one-year funding settlement. The Spending Review 2021, announced by the Chancellor on 27 October 2021, provided indicative funding for the three years to 2024-25 and we hoped to receive a multi-year funding settlement when the Provisional Local Government Finance Settlement was announced in December 2021. Unfortunately, this was not the case and the Settlement has only provided confirmed funding for 2022-23. Future funding beyond 2022-23 is now subject to the outcomes of the Fair Funding Review.

3.2 Impact on Dorset & Wiltshire Fire and Rescue Authority

- 3.2.1 The impact on the Authority of 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.
- 3.2.2 From the table above it is evident that, despite the 'real' terms increases since 2020-21 and 2021-22, the Government's Settlement Funding Assessment for the Authority is reduced by approximately £5m over the period 2016-17 to 2022-23.

Table: Settlement funding assessment (as at December 2021)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	£m							
Baseline funding level	9.478	9.567	9.763	10.056	10.286	10.453	10.453	10.453
Revenue Support Grant	9.948	8.069	5.704	4.493	3.796	3.858	3.879	3.998
Settlement funding assessment	19.426	17.636	15.467	14.549	14.082	14.311	14.332	14.451
Reduction in grant since 2015-16								£5m

3.2.3 The Government argues that the impact of these funding reductions is much less than this, when taking into account the full funding resources available to local government. They justify this by publishing a ‘Core Spending Power’ calculation for each Authority. The latest details of this calculation for the Authority for the period up to 2022-23 are shown in the following extract (table below) from The Department for Levelling Up, Housing and Communities published figures.

Table: Government assessment of core spending power for the Authority

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	£m						
Settlement funding assessment	17.636	15.467	14.549	14.082	14.311	14.332	14.451
Precepts (Council Tax)	36.316	37.489	39.348	41.239	42.397	42.933	44.200
Rural Services Delivery Grant	0.049	0.039	0.049	0.049	0.049	0.052	0.052
Transition Grant	0.167	0.210	0.000	0.000	0.000	0.000	0.000
Services Grant	0.000	0.000	0.000	0.000	0.000	0.000	0.721
Compensation for under-indexing business rates multiplier	0.138	0.147	0.230	0.335	0.419	0.545	0.859
Core spending power	54.306	53.352	54.176	55.705	57.176	57.862	60.283

3.2.4 Looking at this table, our Core Spending Power shows an increase of £2.4m or 4.2% for 2022-23. Unfortunately, this does not reflect the true reality of our funding position as the Settlement Funding Assessment includes estimates for business rates funding that do not reflect actual income locally, although the Government is providing us with additional one-off grant funding of £721k in 2022-23 via the new ‘Services Grant’ line shown above. This has been provided “so local authorities can provide support across the entire sector in recognition of the vital services delivered at every level of local government.”. Unfortunately, there is no guarantee that this funding will continue beyond 2022-23 as it is subject to the Fair Funding Review.

3.2.5 Whilst we also welcome the 'real' terms increases in funding provided by the one-year settlements over the past four years, they do little to help with our medium-term financial planning and make it hard to be clear about timescales for the Service changes that will be required to deal with our forecast budget gaps. The longer-term picture will not now become clear until a full, multi-year funding settlement is provided, hopefully later in 2022.

4. Service context

4.1 Strategic assessment of risk

4.1.1 To ensure that our Community Safety Plan (CSP) remains relevant and reflective of the wider landscape in which we operate, we undertake a biennial strategic assessment of risk.

4.1.2 This assessment examines a range of key factors that impact on our organisation from opportunities and challenges emerging from within the fire sector and those within the wider public-sector environment.

4.1.3 The assessment aims to help ensure that our planning and decision-making remains current and reflective of the landscape within which we operate. It is developed from analysis that draws on a broad range of information, data, and intelligence, looking both externally and internally and against risk and demand. All local resilience forum partners have been consulted during its production.

4.1.4 The document evidences a large number of key strategic issues facing the Authority within its current and future planning including:

- Financial uncertainty for the Authority and its partners is set to continue for the foreseeable future from several quarters including the UK exit arrangements from the EU and the need to address the national deficit
- There is a growing number of individuals and householders that the Service needs to engage with to reduce the number of deaths and serious injuries from fire or to prevent unnecessary hospital stays
- The number of people killed or seriously injured on our roads remains consistently high and needs to be further reduced
- The recruitment and retention of on-call firefighters will remain increasingly difficult with a significant impact upon the availability of appliances and costs
- The outcomes and findings of the Grenfell Tower inquiry and other reviews, such as the Dame Hackitt review, are likely to have a significant impact upon the fire sector particularly in the areas of current system of building regulations and fire safety. This will infer more statutory responsibilities and the need for significant investments in fire safety
- There is a need to ensure that the Authority plays its part in reducing the Service's environmental impact, which will need some one-off "Invest to Save" funding to generate longer term, ongoing savings as part of our efficiency plan
- The diversity of the workforce is not sufficiently reflective of the community we serve and the extensive programme of work needs to continue
- Due to the lack of wholetime recruitment, the Service has an ageing operational workforce giving rise to a potential increase in ill-health retirement costs

- There is a need to continue strengthening the work pursued within the Network Fire Service Partnership (NFSP) with our neighbouring fire and rescue services to upgrade the mobilising systems and drive costs and efficiency savings through borderless mobilising operational assets
- There is a continued need to engage and financially resource the emergency services' mobile communications programme to improve future resilience of communications and incident management as the Airwave system comes to end of its contract
- There is a need to increase further the financial investment in our ICT and associated management systems to ensure they remain fit for purpose and resilient to against cyber-attacks
- There is a requirement to consider the sustainability of our operational training centres, including the feasibility of developing a single, central and modernised training facility to further improve firefighter safety; reduce medium-term costs and mitigate the risks associated with the existing lease arrangements.

4.1.5 Our Resourcing and Savings Programme work (see next section) has looked to address the financial consequences of these strategic risks and issues and, where appropriate, this is included in our budget forecasts later in this document. We have also earmarked reserves that are available to support some of these issues and these are discussed in more detail in Section 8.

5. Efficiency and value for money

5.1 About our efficiency plans

5.1.1 Prior to their combination in April 2016, both legacy authorities were traditionally low spending and low funded organisations. They also received higher than average cuts to government grant when compared to other combined fire authorities. The new Authority continues to be a low spending, low funded organisation, but at the same time has been awarded three “Good” ratings in the first round of Her Majesty’s Inspectorate of Constabulary and Fire & Rescue Services inspection process.

5.2 Approach to securing greater value for money

5.2.1 There is a comprehensive framework to achieving value for money (VFM) that centres a number of key themes:

- **UNDERSTANDING INVESTMENT NEED AND DELIVERY**
- **BENCHMARKING AND ADOPTING GOOD PRACTICE**
- **PERFORMANCE AND PRODUCTIVITY MANAGEMENT**
- **PROCUREMENT and CONTRACT MANAGEMENT**
- **RESOURCES TO RISK AND DEMAND**
- **MAXIMISING OUR PARTNERSHIP OPPORTUNITIES**
- **TECHNOLOGY AND MANAGEMENT INFORMATION SYSTEMS**

5.2.2 Further details can be found in Securing Value for Money: Our Approach.

5.3 Our efficiency journey so far

5.3.1 Since 1 April 2016 when the new Authority and Service was established, £6.7m of cashable efficiencies had been realised by March 2020.

	£m
Non-station based staff incl. senior management	3.720
Procurement and contracts	0.416
Estates	0.252
Service Control Centre	0.450
Smarter Working	0.034
Streamlining the Authority	0.055
Duty systems	1.670
Emergency response vehicles	0.064
TOTAL SAVINGS	6.661

5.4 Resourcing and Savings Programme

5.4.1 We recognised that despite our low funding position, and our excellent record of reducing costs, significant financial challenges remained. During 2020, along with responding to the challenges of the Covid-19 pandemic, we began taking a new in-depth look at Service finances to see where further savings and efficiencies could be achieved. The drivers for the Programme were:

- Delivering further financial savings
- Maintaining our statutory responsibilities
- Addressing the issues arising from the Strategic Assessment of Risk
- Protecting reserves to better support future reform and deliver further savings
- Maintaining the sound reputation of the Service and ratings from Inspection.

5.4.2 In support of this we:

- Costed all functions and budget lines across all departments, with some further savings achieved, including where we have been able to capitalise on opportunities arising from Covid-19, such as reduced fuel costs
- Zero based revenue budgets and reduced expenditure where appropriate
- Conducted in-depth and focused response reviews, based upon evidence, and discussions with staff and their representative bodies over all aspects of the Service including prevention, protection, response and support
- Fully considered staff suggestions for savings
- Developed our examination and recording of VFM more generally to explore specific issues. This work has included further strengthening our business case development process and our project and programme arrangements.

5.4.3 The focused response reviews looked at:

- Technical rescue provision – we reviewed the specialist technical rescue provision and disposition from a Service-wide perspective with the aim of rationalising our approach in order to provide a more consistent delivery model in the most effective way, matching known demand and risk. This review concluded that our technical rescue resources would be best provided through a three-station model providing a full technical rescue capability at each station.
- Aerial ladder platforms (ALPs) – we have three ALPs that are crewed by wholetime staff and one that is crewed by on-call staff. This review looked at the number and disposition of these vehicles across the Service and was aligned with the technical rescue review. We have significantly reduced future capital spend by removing the requirement to replace a fourth ALP when it comes to end of life.
- ‘Second aways’ – we currently have fourteen solely on-call stations with a ‘second away’ pumping appliance and one wholetime station at Poole with a wholetime “second away”. The locations of these appliances were determined

by the Integrated Risk Management Plans of the two legacy Services. We assessed the numbers and locations of these appliances against a range of factors including both current and future risk and demand, and current availability. The review concluded that an initial five appliances could be removed over the long term from the capital investment programme without comprising our operational response arrangements. This has provided both revenue and capital savings in future years helping to support a more affordable investment programme over the medium to long term.

- Wholtime crewing review – we explored the feasibility of further reducing watch strength at several wholtime stations whilst still maintaining technical rescue and aerial ladder capability. The review concluded that there was scope to make further reductions should our financial position not improve.
- Daytime duty systems – we reviewed the crewing model at Ferndown to determine the most suitable and cost-effective crewing model to meet current and future risk and demand. This review concluded that Ferndown could move to being an on-call only station. Provided our funding position allows, we will look to re-deploy resources to Amesbury where there is a greater risk and demand. These options will be considered in more depth in 2022.
- Attribute based response (ABR) – ABR will develop a system to count the number of individual people, or skill sets available, and mobilise these resources to each incident. This will help to improve service provision and ensure resources are used efficiently and effectively. A trial of ABR due to be live by the end of Q1 2022.

5.4.4 The table below summarises the net savings that were included in our 2021-22 budget and MTFP document. These remain within the 2022-23 budget plan and this new MTFP.

	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Capital financing	£0.660	£0.581	£0.747	£0.815
Workforce planning	£0.075	£0.200	£0.125	£0.000
Technical rescue	(£0.034)	£0.031	£0.032	£0.032
4 th aerial ladder platform	£0.000	£0.000	£0.000	£0.100
'Second away' appliances	£0.000	£0.200	£0.204	£0.253
Protection	(£0.191)	(£0.391)	(£0.311)	(£0.311)
Prevention	£0.186	£0.171	£0.160	£0.160
Other net changes	£0.379	£0.547	£0.414	£0.314
TOTAL	£1.075	£1.339	£1.371	£1.363

5.5 Future plans

5.5.1 Section 6 sets out our budget and medium-term finance plan in detail. Taking account of the savings highlighted above, some other budget changes, and based on our planning assumptions for the period to 2025-26, we currently need to identify further savings, assuming that our funding position does not improve. Indicative budget gaps are as follows:

Table: Indicative Funding Gaps/Deficits

	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
Total Funding	61.048	61.363	62.953	64.371
Estimated Net Service Budget	61.048	62.487	64.441	66.181
Budget surplus(+)/deficit(-)	0.000	-1.124	-1.489	-1.810

5.5.2 These deficits are based upon the agreed financial assumption and represent a significant challenge going forward. We will continue to:

- scrutinise every line of expenditure and ensure avenues for cost reductions are taken
- ensure that our procurement considers “whole life cost” (i.e. acquisition cost, cost of maintenance and running costs, disposal cost etc.) of a purchase, as well as ensure its fitness for purpose (i.e. quality and ability to meet our requirements)
- collaborate on all significant procurements (over £100k), using pre-established frameworks, or developing frameworks, to maximise any partnership opportunities and economies of scale where it is practical and beneficial to do so
- benchmark our position against the Home Office’s ‘basket of goods’ exercise that has demonstrated below average costs are being secured.

5.5.3 In addition to the possibilities for further cuts so far identified that will be subject to further debate and future budget settlements, we are also looking at:

- Ensuring that we are managing our staffing resources in the most efficient and effective way possible
- Revisiting our future capital programme requirements by examining a number and specifications of specialist vehicles
- Developing a business case for the delivery of a new central training facility
- Developing a strategic property transition plan to reduce costs, mitigate risks and to support the potential financing of a centralised and modernised training facility
- Reviewing the future scope of our prevention activity

- Reviewing our reserves strategy to ensure that we are maximising the opportunities it provides to deliver further transformation and savings, as well as ensuring that we are adequately protected from potential financial risks.

5.5.4 This work has continued through 2021 and will progress further in 2022, allowing us to develop our future budget plans and respond to the outcomes of future funding settlements.

6. Budget 2022-23 and future years' forecasting

6.1 Finance assumptions and principles

6.1.1 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 discussed with Members in September 2020 and at our subsequent finance seminars in December 2020 and January 2021. They are:

	2021-22	2022-23	2023-24 onwards	financial impact of 1% variation
1. Change in government funding settlement	+0.15%	+2.6%	+0.0%	£162k
2. Change in council taxbase	-0.71%	+1.6%	+1.0%	£451k
3. Council tax referendum threshold	+2.0%	+2.0%	+2.0%	
4. Change in Band D council tax	+1.99%	+1.99%	+1.99%	£447k
5. Pay award - uniformed	+1.0%	+2.0%	+2.0%	£358k
6. Pay award - corporate	+1.0%	+2.0%	+2.0%	£131k
7. Non-pay inflation*	+1.0%	+2.5%	+2.5%	£125k
8. Any residual revenue budget gap will require funding from the use of reserves				
9. Maintain general balances at 5% or £2.5m				

* General provision only. Specific additional provision has been made on certain budget lines

6.2 Funding

6.2.1 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 taxpayers).

6.2.2 Government support

6.2.3 The Provisional Local Government Finance Settlement announced on 15 December 2021 showed a funding increase of £119k for 2022-23. This includes revenue support grant increasing in line with September 2021 CPI of 3.1% and a freeze in business rates funding. The Final Settlement is expected to confirm this in early February 2022. Despite this slightly improved funding position, overall our Settlement Funding Assessment will have reduced from £19.426m (accumulated as two separate Authorities) in 2015-16 to £14.451 in 2022-23, representing a cash reduction of £5m or 26% over the period since 2015-16.

6.2.4 The settlement for 2022-23 is the fourth one-year only settlement provided by the Government. A multi-year Settlement had been expected following the 2021 Spending Review but this has been paused.

6.2.5 A new 'Services' grant has been provided for 2022-23 "*so local authorities can provide support across the entire sector in recognition of the vital services delivered at every level of local government.*". Our share of this funding is £721k, but includes funding for the increase in employer national insurance (NI) costs from April 2022 that support the Government's new plan for health and social care. We expect our NI costs to increase by around £300k, reducing the net benefit of this funding to £421k. The Settlement also continues to provide a Rural Services grant to 'super-sparse' areas and our share of this is £52k.

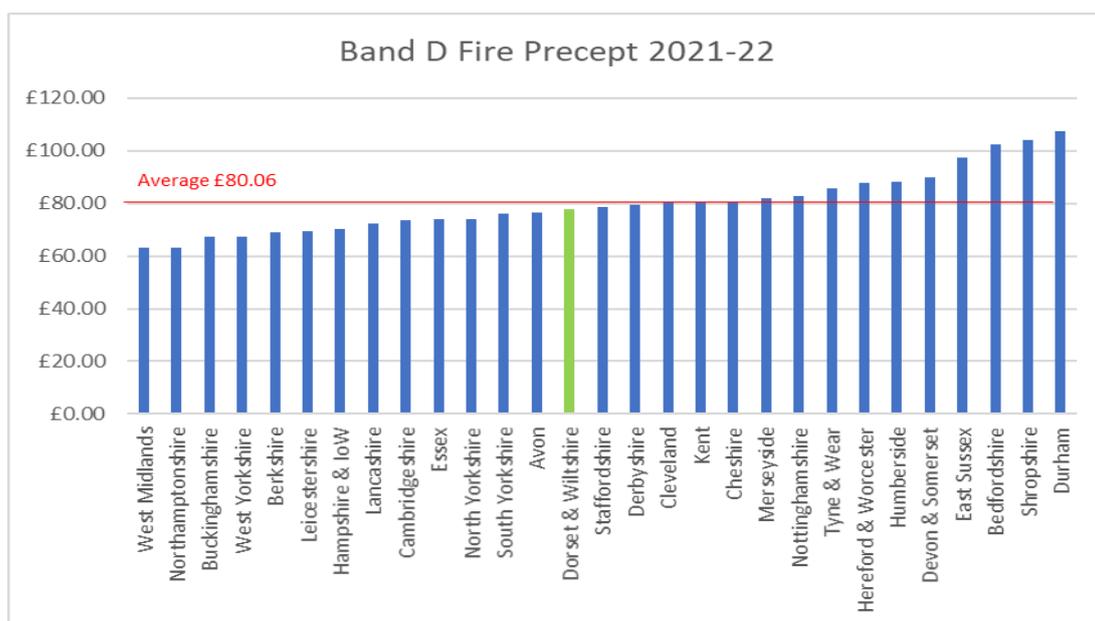
6.2.6 The Government intends to review how the Services Grant funding can be best used from 2023-24 onwards, including reviewing how local authority funding is distributed. This review is planned for the early part of 2022. It is unlikely that the current fire and rescue service part of the funding formula will be reviewed at this time, but we may still be impacted by changes to other elements of the funding formula.

6.2.7 Precepts

6.2.8 The Authority has a history of being a low funding, low spending authority. Currently, only 25% of our funding is provided centrally, with the remaining 75% coming from local council tax funding. This reflects the £5m reduction in central funding that the Authority has seen since 2015-16.

The low level of funding inevitably places pressure on levels of fire precept. Our 2021-22 fire precept figure of £77.88 compares to a national average for all standalone FRAs of £80.06 (see graph below).

Graph: Band D Fire Precept 2021-22 (all standalone Fire and Rescue Authorities)



6.2.9 Raising our precept to the 2021-22 national average level of £80.06 would require an increase of £2.18 or 2.8%, breaching the current referendum threshold. For some time now Members and Officers have been putting forward the case for local council tax flexibility and the option for a £5 de-minimis increase in the fire precept. The Spending Review bid submitted jointly by the National Fire Chiefs Council (NFCC) and Local Government Association (LGA) again put forward this option. We also wrote separately to the Secretary of State in October again putting forward the case for a £5 increase.

6.2.10 There has now been some change in approach from the Government and a recognition of funding issues in the Fire sector. This has led to the inclusion in the proposed referendum principles for 2022-23 of a £5 flexibility for the eight lowest-charging fire and rescue authorities. The other referendum principles proposed in the 2022-23 provisional finance settlement consultation document are:

- a core council tax referendum principle of up to 2% for shire counties, unitary authorities, London boroughs, the Greater London Authority (GLA) and fire and rescue authorities
- a bespoke council tax referendum principle of 2% or £5, whichever is higher, for shire district councils
- an adult social care (ASC) precept of 1%, for all authorities responsible for ASC services
- ability to add any unused parts of the 3% ASC Precept flexibility available in 2021/22
- a referendum principle of £10 for police authorities
- no referendum principles for mayoral combined authorities or town and parish councils.

6.2.11 The Provisional Settlement Consultation document again asked for views on this package of referendum principles and our response continues to put forward the

compelling case for a £5 de-minimis increase for Fire. Section 6.6.4 illustrates the financial impact of a £5 increase for this authority.

- 6.2.12 It is anticipated that referendum principles will remain in operation at the 2% level for all Fire and Rescue Authorities beyond 2022-23 as per Finance Principle 3 above. For planning purposes in this MTFP, we are therefore assuming fire precept Band D council tax increases of 1.99% for 2022-23 and subsequent years, as per Principle 4.
- 6.2.13 A 1% change in fire precept Band D or a 1% change in taxbase equates to approximately £451k per annum.
- 6.2.14 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). Taxbase levels have been significantly affected by the Covid-19 pandemic and increased levels of local council tax support requests but are now showing some signs of recovery. On average across the whole of the Authority area our taxbase for 2022-23 has increased by approximately 1.6%, compared to a reduction of 0.7% for 2021-22. Compared to our general financial principle of 1% increases, this equates to additional income of £270k.
- 6.2.15 In establishing the indicative budget for 2022-23, funding from precepts to be issued to billing Authorities is estimated, based on a fire precept of £79.43 (a 1.99% increase) and the taxbase increase of 1.6%, to be as follows:

Table: Estimated precepts – billing Authorities

Collecting Authority	Taxbase 2022-23	Precept 2022-23 £000
Bournemouth, Christchurch & Poole Council	142,814	11,343
Dorset Council	150,618	11,964
Swindon Borough Council	76,784	6,099
Wiltshire Council	189,964	15,089
TOTAL	560,180	44,495

- 6.2.16 Given our assumptions for taxbase and fire precept Band D, funding from Precepts is estimated as follows:

Table: Estimated funding from precepts

	2021-22	2022-23	2023-24	2024-25	2025-26
	Actual	Estimated	Estimated	Estimated	Estimated
Band D increase	+1.99%	+1.99%	+1.99%	+1.99%	+1.99%
Taxbase change	-0.71%	+1.6%	+1.00%	+1.00%	+1.00%
Taxbase	555,221	560,180	565,782	571,440	577,154
Fire precept	£77.88	£79.43	£81.01	£82.62	£84.26

Precept	£42.933m	£44.495m	£45.834m	£47.213m	£48.631m
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- 6.2.17 There are also one-off collection fund surpluses and deficits reported by the billing authorities, which offset or add to the amount council tax income collected each year. Again, the Covid-19 pandemic has severely affected collection levels, and in 2021-22 our share of local deficits was £656k, compared to a surplus of £176k for 2020-21. Ordinarily this deficit would have had to be funded entirely through the 2021-22 revenue budget, but new legislation was enacted requiring all local authorities to spread any 2020-21 deficits over a 3-year period. The charge for 2021-22 was £234k, with £211k then being charged in 2022-23 and 2023-24. Following some recovery in 2021-22 the overall net surplus to be included in the 2022-23 budget is £341k, which includes the £211k deficit relating to 2020-21.
- 6.2.18 In summary, the table below shows the total funding assumed to 2025-26 based on the finance principles and assumptions above:

Table: Estimated Total Funding

	2021-22	2022-23	2023-24	2024-25	2025-26
	Actual	Estimate d	Estimate d	Estimate d	Estimate d
	£m	£m	£m	£m	£m
Fire Precept (£m)	42.933	44.495	45.834	47.213	48.631
Council tax Collection Fund Surplus/Deficit(-) (£m)	(0.234)	0.341	(0.211)	0.000	0.000
Revenue Support Grant (RSG) (£m)	3.879	3.998	3.998	3.998	3.998
BRR and Top Up grant (£m)	10.453	10.453	10.453	10.453	10.453
Business rates Collection Fund Surplus/Deficit(-) (£m)	(0.261)	(0.261)	(0.261)	(0.261)	(0.261)
Other government grants	1.727	2.022	1.550	1.550	1.550
TOTAL	58.497	61.048	61.363	62.953	64.371

6.3 Pay costs

- 6.3.1 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.
- 6.3.2 Based on our agreed financial principles we ordinarily assume year-on-year pay awards of 2% for all staff groups. Following the 2020 Spending Review, and the Government signalling a public sector pay freeze for 2021-22, we reduced this assumption to 1% for 2021-22 only. The Fire and Local Government sectors are

subject to separate national negotiation through their respective National Joint Council (NJC) bodies who do not have to follow the Government recommendation. The Fire pay award for 2021 was settled at 1.5% (applying from July 2021), but the Local Government pay award (applying from April 2021) has still not been settled. The final offer from the NJC Employers is 2.75% at the lowest pay scale point and 1.75% on all other pay points. Our financial projections include the cost of this final offer and the additional cost of both awards for 2021-22, above our 1% assumption is £290k. Our projections for 2022-23 to 2025-26 include 2% pay awards for all staff groups although we recognise that there will be significant pressure from the relevant unions for higher offers given the current economic climate and inflation having risen to more than 5% at the end of 2021. Anything more than 2% is unaffordable in the context of our overall financial position and restrictions on funding. A 1% variation in the pay award is worth approximately £486k.

6.3.3 The risk assessment of our General Reserves and Balances includes the potential impact of pay variation, although this would only cover the in-year cost of an increased award and would not account for the cumulative effect in subsequent years.

6.3.4 The table below summarises the indicative additional costs of a 2% pay award for 2022-23 and 2% pay awards for future years.

Table: Estimated impact of pay awards

	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
Full year cost of pay award	1.028	1.056	1.035	1.011

6.3.5 Staff costs will also be impacted by the introduction of the new health and social care funding arrangements from April 2022. This will see employer national insurance contributions increasing from 13.8% of relevant pay to 15.05% of relevant pay. The additional budget cost for 2022-23 has been calculated at £297k. The Government committed to funding these increased costs for the public sector and in 2022-23 this has been provided as part of the Services grant funding that we have received.

6.4 Pensions

6.4.1 The cost of firefighter pensions has increased significantly in recent years. In late 2018 we were notified of the Government's Actuary Department (GAD) latest valuation of the firefighters' pension fund. This confirmed a significant increase in employer contribution rates from April 2019. The Government agreed to fund 90% of the additional costs in 2019-20 by way of Section 31 grant funding and this has continued each year since. It was indicated that this funding would be included in our main Settlement Funding Assessment from 2022-23, but this has not happened. The Home Office will continue to provide the funding as a separate

grant as in previous years and we will wait to see if any changes are made from 2023-24.

- 6.4.2 We are likely to see a further increase in employer contribution rates for the FPS from April 2024 as the scheme picks up the costs associated with the McCloud remedy, associated with the age discrimination judgement and other FPS scheme valuation changes. Employer costs are currently budgeted at £6.4m and an increase in contribution rates represents a significant financial risk. As an indication, an increase by 1% point would therefore cost around £220k per year, but we simply do not know what the impact might be at this stage.
- 6.4.3 We have also seen an increase in costs for the Local Government Pension Scheme. Following the latest triennial valuation, and a change to our employer contribution rate, our annual costs increased by an estimated £77k from April 2020. The next triennial valuation is due in 2022-23 and will inform employer contribution rates from April 2023.

6.5 Other inflationary commitments

6.5.1 The level of general inflation in the economy as a whole has increased significantly in recent months and this trend is forecast to continue right through 2022. The annual rate of inflation published for December 2021 was running at 5.4%. We continue to see price pressures in fire specific cost areas. Inflation increases also need to be factored in to budgets where there is a contractual or legal commitment or for items beyond our control, such as utility costs. The total amount that has been allowed for non-pay inflation in 2022-23 is approximately £350k, compared to £230k in 2021-22. Additional allowances have also been made for 2023-24 before returning to more normal levels for 2024-25 onwards.

6.6 Investment in protection resources

6.6.1 Over the past two financial years the Service has been provided with some one-off funding by the Home Office to support new protection and building safety requirements post-Grenfell. In 2020-21 £339k was provided and a further £316k in 2021-22. These sums have supported some initial short-term investment in resources, but they will be largely exhausted by the end of March 2022. We are hopeful that there will be some further funding made available for 2022-23, but expect this to be only one-off funding again. To support all of the new requirements around the built environment and the legislative changes being brought forward by the Government we estimate that an additional £500k investment in protection resourcing is required moving forwards and this has been included in the medium-term projections from 2023-24.

6.7 2022-23 budget requirement

6.7.1 Taking all of the changes into account, the net budget requirement for 2022-23 is £61.048m as summarised below:

Table: Budget requirement 2022-23

	Budget 2022-23 £m
Revenue Budget	
- Employees	51.554
- Premises	3.775
- Transport	1.389
- Supplies & services	5.474
- Agency & contracted out	2.370
- Democratic representation	0.113
- Capital financing/leasing	4.012
- Income	-6.298
- Transfers to/from reserves	-1.341
Net budget requirement	61.048

6.8 Medium Term forecast

6.8.1 The table below shows updated projections of the Authority's budget requirement from 2022-23 to 2025-26 based on the agreed Financial Principles, current data received from our constituent authorities, Service spending proposals and our Strategic Assessment of Risk, previously outlined in Section 3.

Table: Estimated revenue budget 2021-22 to 2025-26

Revenue budget	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
- Employees	49.322	51.554	52.607	53.431	54.176
- Premises	3.828	3.775	3.889	3.958	4.027
- Transport	1.278	1.389	1.374	1.366	1.378
- Supplies & services	5.063	5.474	5.258	5.365	5.401
- Contract out services	2.285	2.370	2.284	2.294	2.317
- Democratic rep	0.110	0.113	0.113	0.113	0.113
- Capital financing	3.287	4.012	4.136	4.493	4.967
- Reserve transfers	-6.079	-6.298	-6.091	-6.234	-6.142
- Income	-0.598	-1.341	-1.083	-0.344	-0.056
Service budget requirement	58.496	61.048	62.487	64.442	66.181

6.8.2 Looking beyond 2022-23, based on our funding assumptions and forecast spending plans we have indicative funding deficits of £1.124m rising to £1.788m between 2023-24 and 2025-26 respectively:

Table: Indicative funding gaps/deficits

	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Total Funding	61.048	61.363	62.953	64.371
Estimated Net Service Budget	61.048	62.487	64.442	66.181
Budget surplus (+) / deficit (-)	0.000	-1.124	-1.489	-1.810

6.8.3 Our assumption about future funding impacts on the projections shown, but without a multi-year settlement from Government, it is difficult to predict what the actual position might look like. If we look at a scenario where our government funding increases by 3% each year, compared to the assumed 'flat cash' scenario, the medium-term projections would like this:

Table: Indicative funding deficits, with 3% increase in funding settlement

	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
Total funding	61.048	61.797	63.832	65.711
Estimated net service budget	61.048	62.487	64.441	66.181
Budget surplus (+) / deficit (-)	0.000	-0.690	-0.609	-0.470

6.8.4 We continue to lobby for increased flexibility around precept increases. The table below illustrates the significant beneficial impact of a £5 increase in the fire precept, which would deliver approximately £1.9m of additional funding.

Table: Indicative Funding Deficits, with £5 precept increase in 2022-23

	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Total Funding	61.048	63.298	64.946	66.425
Estimated Net Service Budget	61.048	62.487	64.441	66.181
Budget surplus (+) / deficit (-)	0.000	+0.811	+0.505	+0.244

6.8.5 To bridge the indicative budget deficits, the Service will use its reserves and balances to support Service transformation and the associated transition costs, and look to find further reductions in budgets and/or cost efficiencies through the Resourcing and Savings Programme.

7. Capital expenditure and financing

7.1 Capital expenditure programme

7.1.1 The capital programme, covering the anticipated revised programme for 2021-22 and requirements through to 2025-26, is shown in the table below. The revised amounts shown for 2021-22 include projects carried forward from 2020-21 and anticipated in-year changes to the programme.

7.1.2 The capital programme for 2022-23 totals £4.629m, the majority of which will require funding through prudential borrowing.

Table: Capital programme

	2021-22	2022-23	2023-24	2024-25	2025-26
	Estimate	Indicative	Indicative	Indicative	Indicative
Capital Budget	£m	£m	£m	£m	£m
Property/Estates	1.476	998	715	705	1.125
Vehicles	7.136	2.276	4.747	4.778	2.567
Equipment	1.690	122	112	169	287
ICT	355	1.232	943	498	783
TOTAL	10.657	4.629	6.516	6.149	4.761
Financed By					
Prudential Borrowing	10.249	4.329	6.291	6.049	4.561
Capital Reserves	0.000	0.000	0.000	0.000	0.000
Other Earmarked Reserves/ Unapplied Grants	0.408	0.300	0.225	0.100	0.200
TOTAL	10.657	4.629	6.516	6.149	4.761

7.1.3 The Estates programme is informed by the outcomes of independently undertaken property conditions surveys, identifying the property assets in most need of attention now and over the next few years, based on risk and priority, and reflects a 7-year refresh cycle. £225k has been carried forward from 2021-22 to 2022-23 to support the installation of solar standby power equipment at five fire stations that will reduce business continuity risks and support the delivery of our environmental strategy. The Estates programme does not include any provision for major station replacements/enhancements in the next 5 years or make any provision for the investment required to future proof our training facilities. The training centre investment is estimated at between £4.6m and £10m depending on the final option chosen. The Authority will be asked to approve the full business case for this investment later in 2022.

7.1.4 Vehicles are regularly reviewed and are subject to the long-term vehicle replacement policy and aligned to our Asset Management Strategy 2021-2024. After some significant investment over the past few years the 2022-23 capital

programme includes replacement of six large fire appliances and a number of other smaller vehicles. Over the next 5 years there is provision to replace a further twenty-nine large fire appliances and four 4x4 fire appliances. Requirements for specialist vehicles are reviewed through the Resourcing and Savings Programme. This has recently approved the replacement of four water carriers in 2023-24. A further project mandate is progressing the review of a number of other specialist response requirements including hazardous materials and environmental protection, incident command support, off-road access and welfare support. The project will look at the best way of providing these key functions, and covers consideration of vehicles, equipment, technology and crewing requirements. The programme continues to assume no 'white' fleet replacements before 2023-24 as we have looked to reduce the capital programme and need to re-assess our requirements post-pandemic.

- 7.1.5 The main focus of the programme for equipment in 2022-23 is to support operational equipment requirements linked to the vehicle replacement programme. This includes supporting the specialist response review outlined above.
- 7.1.6 Ongoing ICT requirements are aligned to the plans set out in the ICT Strategy 2021-2024 and this includes information governance and security, operational communications, ICT resilience, technology management, digital transformation, and business intelligence and data management. The capital programme includes the equipment and systems requirements to support the strategy. A significant project to replace station end mobilising equipment across the fire station estate has moved from 2021-22 to 2022-23.

7.2 **Financing the capital programme**

- 7.2.1 The table in 7.1.2 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, revenue contributions, specific grants and contributions and through prudential borrowing.
- 7.2.2 Capital receipts from the disposal of existing capital assets can only be used to fund expenditure on new capital assets. At the current time, all available capital receipts of the Authority have been used to finance previous capital expenditure programmes.
- 7.2.3 The Authority can make revenue contributions to the cost of its capital expenditure, either direct from its revenue budget or from earmarked reserves. There is no current base budget allocation for direct revenue contributions and earmarked capital reserves stood at £1m on 31 March 2020. Planned savings in the revenue budget from 2021-22 have allowed us to release £2.7m from our Transformation Reserve to support capital financing. We were also able to release £319k from other reserves that were no longer required for their original purpose. Along with £100k that included in the revenue budget as an ongoing contribution to capital reserves, we have been able to create a capital reserve fund of just over £4m to support future capital investment and reduce borrowing costs. A slightly improved funding position and using some in-year savings, allows the

Authority to add a further £3m to this reserve as part of the updated medium-term finance plan. This will mean that there will be approximately £7m available to support capital investment moving forwards, and in particular provide funding for essential investment in training facilities.

- 7.2.4 Specific grants for capital funding are no longer available, having been replaced with a capital and revenue grant bidding system open to all FRSs, if and when monies are made available by Government. We do not anticipate any new capital grants for 2022-23.
- 7.2.5 Developer contributions, usually derived from Section 106 agreements, are awarded to mitigate the impact of developments on communities. These contributions are usually earmarked for specific purposes in planning agreements and often relate to infrastructure projects or affordable housing schemes. At the present time the Authority is holding S106 funding totalling £407k and this is included in our capital reserve.
- 7.2.6 Further developers' contributions, through the Community Infrastructure Levy, may be available moving forward, but none are held at the current time and there are a number of stakeholders competing for these limited one-off funds.
- 7.2.7 The Authority will first utilise all of the funding streams highlighted above as the cheapest form of funding, but any shortfall of funding has to be made up from prudential borrowing.
- 7.2.8 The Prudential Code for Capital Expenditure for Local Authorities allows local authorities to undertake unsupported borrowing. This type of borrowing has revenue implications for the Authority in the form of financing costs, which vary depending on the amount and the length of any loan taken out. The Authority looks to match its borrowing with the lifespan of assets purchased.
- 7.2.9 The Authority has used internal borrowing for the financing the capital programme for a number of years, i.e. rather than borrowing we have used internal cash flows as this has been more efficient and economical, particularly as investment returns have been at such low levels. This has resulted in an under borrowing position of £11.1m on 31 March 2021, and we estimate this strategy has resulted in annual budget savings in excess of £0.5m. Such a position is not sustainable in the longer term and needs to be balanced with how we utilise our reserves and balances and ensuring that our cash balances are adequate. The Authority borrowed £5m in November 2021, and does not anticipate any further borrowing before the end of the 2021-22 financial year.
- 7.2.10 The capital financing budget currently includes provision for further prudential borrowing of £4.3m in respect of 2022-23 programme, and then £16.9m potentially to be borrowed over the following three years to 2025-26. We will be able to reduce this borrowing requirement through the use of the new capital reserve funds that we are setting aside.

7.2.11 Within the Revenue Budgets for 2021-22 to 2025-26 (included in the table in paragraph 6.6.1, under capital financing) are the costs of prudential borrowing in respect of the previous years' capital programmes i.e. 2022-23 will include the capital financing costs of any prudential borrowing required in respect of the 2021-22 capital programme.

8. Reserves strategy

8.1 Introduction and background

- 8.1.1 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.
- 8.1.2 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.
- 8.1.3 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.
- 8.1.4 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 Finance Plan.

8.2 Strategic context

- 8.2.1 There are a number of reasons why a Fire and Rescue 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.
- 8.2.2 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.
- 8.2.3 **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.

- 8.2.4 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.
- 8.2.5 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 of the agreed funds are required then unused earmarked reserves will be returned to General Balances.
- 8.2.6 **Provisions** are also held in addition to reserves providing funding for a liability or loss that is known with some certainty that is expected to occur in the future, but the timing and amount is less certain.
- 8.3 **Risk assessment to determine the adequacy of general balances**
- 8.3.1 As a well-managed Authority, we strive to maintain as low a level of General Balances as possible, whilst still covering our financial risks. Being a single-purpose authority, we have no opportunity to use cross-service subsidies to meet unanticipated expenditure and so, proportionally, our General Balance may be slightly higher than for a multi-purpose authority.
- 8.3.2 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.
- 8.3.3 The Authority has set a Financial Principle for General Balances to be at £2.5m or 5% of the annual revenue budget, whichever is the higher. The level of General Balances will be managed within this Principle, with any amount in excess of £2.5m or 5% being transferred to the earmarked transformational improvement reserves.
- 8.3.4 The Financial Principle is a useful control measure but is a rudimentary way of assessing the adequacy of General Balances. A more meaningful approach is to develop a risk assessment. The Authority considers both measures as part of its annual reserve strategy.

8.3.5 A risk assessment of the adequacy of 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, 2021-22, has been prepared as part of the budget setting process and is shown in appendix 1. The impact and scale of potential losses has been estimated to calculate a potential net financial impact of just under £3m. At the start of 2022-23 General Balances are expected to be £2.84m, representing 95% of the potential impact, and therefore it will not be necessary to amend the amount based on the current risk assessment as the difference is not considered material.

8.4 Annual review of earmarked reserves

8.4.1 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, earmarked reserves are presented in broad categories and analysed as outlined below.

Earmarked reserves – investment for improvement

8.4.2 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 have, and are being, used to invest in transformation projects and the development of our people which will support the modernisation of the Service. Where we have been able to make base budget savings we plan to release Transformation Improvement Reserves to support capital investment (see 8.4.4 below).

8.4.3 These ‘investment for improvement’ reserves, which are subject to regular review, are detailed below:

Table: Investment for improvement

	Balance 1 Apr 21	Forecast spend 21-22	Forecast Balance 31 Mar 22	Forecast spend 22-23 to 25-26	Forecast Balance 31 Mar 26
	£m	£m	£m	£m	£m
Transformational improvement	6.802	-1.553	5.249	-5.249	0.000
Purpose - This reserve has provided funding to meet various costs associated with changes that the Service has needed to make since April 2016 and provided cover for shortfalls in funding predicted in our MTFP.			Risk – This reserve has helped to mitigate the financial risks associated with future funding uncertainty caused by four successive one-year funding settlements.		
Youth intervention	0.122	-0.069	0.053	-0.053	0.000
Purpose - This reserve is funding two new posts that were agreed to support important Prevention work.			Risk – N/A		

Leadership & organisational development	0.239	-0.105	0.134	-0.134	0.000
Purpose - This reserve is supporting our development programme work around the Leadership in Life Saving, Leading for Performance and Leading for the Future programmes.			Risk – This reserve mitigates the financial risk of higher initial investment costs.		
TOTAL	7.163	-1.727	5.436	-5.436	0.000

Earmarked reserves - capital replacement and development

- 8.4.4 Previously the Authority has been able to use some reserves to offset long term borrowing in supporting its capital investment plans. Savings planned in the revenue budget from 2021-22 allowed us to release £2.7m from our Transformational Improvement Reserve in 2020-21 to support future capital investment. Following review, £319k was also released from other reserves that were no longer required for their original purpose. Along with £100k that is included in the revenue budget as an ongoing contribution to capital reserves, we were able to create a capital reserve fund of just over £4m to support future capital investment and reduce borrowing costs. A slightly improved funding position and using some in-year savings, allows the Authority to add a further £3m to this reserve as part of the updated medium-term finance plan. This will mean that there will be approximately £7m available to support capital investment moving forwards, and in particular provide funding for essential investment in training facilities.
- 8.4.5 Planning for the Capital Programme is undertaken as part of the annual budget setting programme and so each year the Authority has 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 reliance on external borrowing to fund capital expenditure, we will look to set aside further funds for capital replacement wherever possible.

Table: Capital replacement and development reserves

	Balance 1 Apr 21 £m	Forecast spend 21-22 £m	Forecast Balance 31 Mar 22 £m	Forecast spend 22-23 to 25-26 £m	Forecast Balance 31 Mar 26 £m
Capital Replacement	4.052	3.500	7.552	-0.333	7.219
Purpose - These reserves have been established to provide contributions towards the costs of funding future capital programmes.			Risk – This reserve helps to reduce the need for external borrowing to support capital projects, thereby reducing long-term capital financing costs that would otherwise have to be funded through the revenue budget.		
TOTAL	4.052	3.500	7.552	-0.333	7.219

Earmarked reserves - specific projects

8.4.6 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.

8.4.7 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 21	Forecast spend 21-22	Forecast Balance 31 Mar 22	Forecast spend 22-23 to 25-26	Forecast Balance 31 Mar 26
	£m	£m	£m	£m	£m
Service control	0.436	0.000	0.436	-0.180	0.256
Purpose - The Authority is part of a tri-service initiative through our Networked Fire Service Partnership (NFSP) with Devon & Somerset FRS and Hampshire & IoW FRS for the provision of Control functions. The reserve supports our share of any one-off new investment required by NFSP that cannot be funded within the revenue budget.			Risk – This reserve mitigates the financial risk of any one-off new investment required by NFSP.		
Emergency Services Mobile Communications Programme (ESMCP)	0.703	-0.115	0.588	-0.588	0.000
Purpose - 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 by the Home Office there is a need to support the project beyond this funding. £500k is notionally set aside for one-off purchase costs. The balance is funding our own programme costs that cannot be covered by grant funding.			Risk – This reserve helps to mitigate against currently unknown costs related to this national project. If the project was cancelled, there is also a risk that the current Airwave facility will cost the Authority more.		
TOTAL	1.139	-0.115	1.024	-0.768	0.256

Earmarked reserves – other reserves

8.4.8 Some reserves are earmarked for supporting any shortfalls in future revenue budgets which are identified during the development of the Medium Term Financial Plan.

8.4.9 These earmarked reserves, which are subject to regular review, are detailed below: -

	Balance 1 Apr 21 £m	Forecast spend 21-22 £m	Forecast Balance 31 Mar 22 £m	Forecast spend 22-23 to 25-26 £m	Forecast Balance 31 Mar 26 £m
Ill-Health Retirement	0.403	-0.145	0.258	-0.204	0.054
Purpose - For the Firefighters' Pension Scheme, the cost of ill-health retirements and any injury compensation granted has to be paid locally. This includes one-off contributions that have to be made by employers. The revenue budget includes a base amount of £50k.			Risk – The reserve mitigates the financial risks of any cost shortfalls over the £50k base budget amount.		
Insurance	1.428	-0.400	1.028	0.000	1.028
Purpose - This reserve meets the costs of insurance claims that are within the self-insurance limits of our various insurance policies, principally £75k for motor and £100k for employers liability. £400k is being re-allocated to the Capital Replacement Reserve.			Risk – The reserve mitigates the financial risk of substantial claims that the Authority has to fund before external insurers pick up the cost of claims.		
Leasing Rental	0.411	-0.085	0.326	-0.326	0.000
Purpose - This reserve funds the annual rental costs of leasing our Service Headquarters. It is supporting the initial 10-year leasing period to February 2026.			Risk – N/A		
TOTAL	2.242	-0.630	1.612	-0.530	1.082

Unused grants reserves

- 8.4.10 These reserves relate to grants which have been given to the Authority, which have either not been fully spent or have been received in advance of intended spend. Where a grant has been received in advance, the Authority's policy is to transfer the funding to an earmarked reserve for spending in future years. Specifically, timing differences have arisen on a number of grants relating to Prevention, funding for National Resilience, Fire Protection, Transformation and Emergency Services Mobile Communications Project.
- 8.4.11 In 2020-21 the Authority received some specific additional funding to help mitigate the effects of the Covid-19 pandemic.
- (a) £2.6m was provided through two grants to offset funding reductions related to measures put in place by the Government to support businesses and council tax payers affected by economic impact of Covid-19. This funding will be released in 2021-22 to offset funding reductions.
- (b) £1.5m of funding was provided by the Ministry of Housing, Communities and Local Government and the Home Office to support the Authority with direct increased costs being incurred due to the pandemic. The balance of £423k at the end of 2021-22 will be used to fund 2020/21 council tax collection fund shortfalls that must be charged to the 2022/23 and 2023/24 budgets.
- 8.4.12 Other 'smaller' grants are reviewed annually as part of the budget 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 21 £m	Forecast spend 21-22 £m	Forecast Balance 31 Mar 22 £m	Forecast spend 22-23 to 25-26 £m	Forecast Balance 31 Mar 26 £m
Prevention	0.272	-0.107	0.165	-0.121	0.044
National resilience	0.255	-0.051	0.204	-0.204	0.000
Fire protection	0.295	-0.295	0.000	0.000	0.000
Transformation grant	0.568	-0.226	0.342	-0.343	-0.001
Emergency Services Mobile Communication Project (ESMCP)	0.760	-0.253	0.507	-0.507	0.000
Business rates compensation	2.602	-2.602	0.000	0.000	0.000
Covid-19	0.829	-0.406	0.423	-0.423	0.000
Other small grants	0.393	0.064	0.457	-0.456	0.001
TOTAL	5.974	-3.876	2.098	-2.054	0.044

8.5 Summary - Projected reserve balances

Table: Summary - Projected reserve balances

	Balance 1 Apr 21 £m	Forecast spend 21-22 £m	Forecast Balance 31 Mar 22 £m	Forecast spend 22-23 to 25-26 £m	Forecast Balance 31 Mar 26 £m
General reserves	2.844	0.040	2.884	0.207	3.091
Earmarked reserves	14.596	1.028	15.624	-7.067	8.557
Unused grants reserves	5.974	-3.876	2.098	-2.054	0.044
TOTAL	23.414	-2.808	20.606	-8.914	11.692

Appendix 1 – General reserves risk assessment

Budget	Budget Provision 2022-23 £m	Risk	Risk >8 = High 5-8 = Med <5 = Low	2022-23 £m	Commentary
Wholetime and On-call Pay	33.712	Increase in employer contribution rates for the Firefighters Pension Schemes (FPSs)	High	0.487	Our employer contributions now total more than £6.4m per year. Future costs are likely to increase, particularly when considering the impact of the McCloud Sargeant age discrimination case remedy on pensions. A contingency sum equivalent to a 3 percentage point increase has been allowed against this risk.
Wholetime and On-call Pay	33.712	Risk of industrial action / inability to respond to emergency incidents	High	0.203	This continues to be a high risk given the financial pressures on all public sector organisations, the potential for service changes in the future, public sector pay negotiations in the current economic climate and changes to public sector pensions. Amount based on historic costs. A nominal sum is assessed for sustained industrial action and business continuity measures.
Pay	48.562	Under-estimate of pay awards by 1.0%	High	0.486	The revenue budget allows for pay awards of 2%. Given that there have been a number of years of pay restraint and increased pressure on public sector pay increases, together with the current economic climate of significantly higher inflation, it would be prudent to recognise this as a high financial risk. £486k would cover the full year effect of a 1% variation across all staffing groups.

Budget	Budget Provision 2022-23 £m	Risk	Risk >8 = High 5-8 = Med <5 = Low	2022-23 £m	Commentary
On-call Pay	8.614	Impact on the On-call pay budget of large scale incidents or other periods of high activity such as those due to spate weather conditions	High	0.430	These sorts of events can all lead to significant increases in operational activity. As a largely On-call “pay as you go” service, this represents a particular risk to the Service and allowance needs to be made for increased activity and costs by On-Call firefighters. The budget for On-call firefighting is approximately £8.6m, so £430k represents around a 5% variation.
External Funding – Government	-14.451	Future reductions in Government funding are worse than planned / forecast	Medium	0.289	The Medium Term Financial Plan (MTFP) assumes that our Government funding will stay the same in cash terms each year beyond 2022-23. There is a potential for future reductions given the economic impact of the Covid-19 pandemic and the substantial spending made by Government. A 2% variation would equate to roughly £289k.
External Funding - Precepts	-44.495	Collection rates for council tax and business rates are worse than forecast	Medium	0.453	Financial risk around income from council tax and business rates from billing authorities, which were already becoming more volatile, and presenting new funding risks for major precepting authorities, have increased further as a result of the Covid-19 pandemic. Our taxbase (equivalent band D properties) has been impacted by the pandemic and reduced by 0.7% for 2021-22, due to increases in claims for local council tax support. There is some recovery for 2022-23 with the taxbase increasing by 1.6%, but there is still a risk around future taxbase levels. A variation of 1% could result a loss of more than £453k in income, plus the likelihood of Collection Fund deficits.

Budget	Budget Provision 2022-23 £m	Risk	Risk >8 = High 5-8 = Med <5 = Low	2022-23 £m	Commentary
On-call Pay	8.614	Increased take up of pension entitlement by On-call Duty System personnel	Medium	0.105	Our revenue budgets do not allow for an increase in pension uptake, but this risk is more likely to materialise now, as a result of “automatic enrolment” and increasing numbers.
Legal Fees	0.112	Uninsured risks and / or unfavourable outcomes from claims against the Authority - including health and safety risks, procurement challenges, employment issues, etc	Low	0.105	The Authority maintains 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.
Major Incident - Bellwin	N/A	Contribution to major incident not covered by Bellwin	Low	0.122	In the event of further incidents occurring in Dorset or Wiltshire that would be subject to a Bellwin Scheme claim the Authority would be required to make meet the initial costs up to the threshold, a contribution equivalent to 0.2% of its revenue budget, equating to approximately £122k.
Non-pay	15.808	Failure to adequately provide for non-pay inflation	Low	0.160	Our budgets allow for some general price inflation, as well as specific contractual inflation in certain circumstances. Given the current economic climate and significantly higher levels of inflation seen in the last few months the budget includes higher levels of price inflation than would normally be the case. However, even with these higher than normal increases they may not be fully sufficient to manage the impact of rising costs.

Budget	Budget Provision 2022-23 £m	Risk	Risk >8 = High 5-8 = Med <5 = Low	2022-23 £m	Commentary
Total Costs	61.048	General contingency for unidentified items	Medium	0.250	This is a general contingency sum to cover the 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.
General Balances Risk Assessment (£m)				3.090	
Budget 22-23 (£m)				61.048	
General Balances Risk Assessment/Budget as a percentage (%)				5.06%	