Item 23/07 Appendix C

DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Medium-Term Finance Plan 2023-24 to 2026-27

February 2023

Contents

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 continued to only provide confirmed funding for one year at a time. Future funding beyond 2024-25 is subject to the outcomes of the Governments Fair Funding Review, which will now not take place during this Parliament, meaning that any changes will not be made before April 2025. 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 2023-24 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 £8.5m of annual savings since being formed in 2016
- The Service is rated as ‘Outstanding’ for Efficiency and ‘Good’ for Effectiveness and People by His Majesty’s Inspectorate of Constabulary and Fire & Rescue Services
- There are a significant number of strategic financial challenges facing the Authority
- Financial uncertainty, including continuing one-year only financial settlements, high inflation, the impact of the Covid-19 pandemic on local income and significant economic challenges, continue to make it difficult to do meaningful medium-term planning
- Currently the Authority is able to balance its budget for 2023-24, with a small deficit currently forecast for 2024-25, but increasing deficits of £0.8m in 2025/26 rising to £0.9m in 2026/27
- Reserves will largely be exhausted over the lifetime of this plan unless savings are taken or income increased
- Local council tax flexibility remains a key issue despite the helpful £5.00 flexibility provided for 2023-24.

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 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. It was indicated that the Government would 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. This consultation also did not progress and in publishing the 2023-24 Provisional Local Government Finance Settlement it has been confirmed that the Fair Funding Review will not be implemented during this Parliament, meaning that no changes will be made before April 2025.

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 2022-23 Local Government Finance Settlement was announced. Unfortunately, this was not the case and the Settlement only provided confirmed funding for 2022-23. The 2023-24 Settlement provides a further one-year settlement although the Government has given some indication of its intentions for the 2024-25 financial year. Anything beyond that will be dependent on a full Spending Review that we anticipate may take place in 2024.

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, the Government's Settlement Funding Assessment for the Authority is still reduced by approximately £4.2m over the period 2016-17 to 2023-24.

Table: Settlement funding assessment (as at December 2022)

	Baseline funding level	Revenue Support Grant	**Settlement funding assessment**
2015-16	9.478	9.948	**19.426**
2016-17	9.567	8.069	**17.636**
2017-18	9.763	5.704	**15.467**
2018-19	10.056	4.493	**14.549**
2019-20	10.286	3.796	**14.082**
2020-21	10.453	3.858	**14.311**
2021-22	10.453	3.879	**14.332**
2022-23	10.453	3.998	**14.451**
2023-24	10.845	4.403	**15.248**

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 2023-24 are shown in the following extract (table below) from The Department for Levelling Up, Housing and Communities published figures in the Provisional Local Government Finance Settlement for 2023-24.

Table: Government assessment of core spending power for the Authority

	2022-23 £m	**2023-24 £m**
Settlement funding assessment	14.451	15.248
Precepts (Council Tax)	44.495	46.225
Rural Services Delivery Grant	0.052	0.052
Funding Guarantee Grant	0.000	0.178
Services Grant	0.721	0.406
Compensation for under-indexing business rates multiplier	1.068	1.847
Core spending power	**60.787**	**63.956**

3.2.4 Looking at this table, our Core Spending Power shows an increase of £3.2m or 5.2% for 2023-24, although we expect this to increase when the Final Settlement is published which will include the assumption that all fire and rescue authorities increase their Band D council tax by £5. 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.

3.2.5 A new 'Services' grant was provided for in 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 was £721k, but included funding for the increase in employer national insurance (NI) costs from April 2022 related to the Government's new plan for health and social care. With the change in Government policy announced on 22 September 2022 the NI cost element of this grant has been removed and our allocation for 2023-24 is £406k.

3.2.6 The Government is providing additional funding for 2023-24 only to ensure that all local authorities, including FRAs, see at least a 3% increase in their Core Spending Power before any decisions about organisational efficiencies, use of reserves or council tax levels. The national total for this is £136m, with this authority receiving £178k. Four other FRAs benefit from this funding as well, namely Devon & Somerset, East Sussex, Hereford & Worcester and North Yorkshire. The Settlement also continues to provide a Rural Services grant to 'super-sparse' areas and our share of this is £52k, the same as last year.

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
- The outcomes and findings of the Grenfell Tower inquiry and other reviews, such as the Dame Hackitt review, 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 and immediate investments in fire safety
- 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. This has resulted in an approved project of around £8m.
- The recruitment and retention of on-call firefighters will remain increasingly difficult with a significant impact upon the availability of appliances and costs
- 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
- 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 much delayed national 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

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 The Authority is a low spending, low funded organisation. We are very proud to have recently been graded as ‘Outstanding’ for Efficiency in the latest round of Service inspections carried out by His Majesty’s Inspectorate of Constabulary and Fire & Rescue Services. We are one of only three Services in England to achieve this grading.

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 annual cashable efficiencies of £8.5m have been realised. This covered savings of £6.7m by March 2020 aligned to our business case for combining the two legacy Services, £5.4m of which came from staffing changes, and a further £1.3m of net annual savings applying from 2022-23.

5.3.2 It has been necessary for us to plan for further savings from 2023-24 to achieve a sustainable budget and medium-term finance plan against the backdrop of significant cost increases. These have been managed through our Resources and Savings Programme which is covered below.

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 the Covid-19 pandemic, such as reduced travel and smarter working
- 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
- Had a focus on value for money to achieve savings and evidence how we contribute to wider societal savings. This work also included further strengthening our business case development process and our project and programme arrangements.

5.4.3 The focused response reviews have 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.
- Wholetime crewing review – we explored the feasibility of further reducing watch strength at several wholetime 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. In setting the revenue budget for 2023-24 we have reduced total crewing numbers by 28 posts, saving c.£1.4m per year.

- 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 and that we should look to enhance resources in South East Wiltshire area where there is a greater risk and demand, provided that this option was affordable. Subject to overall financial sustainability given the unsettled grey book pay award, we now plan to introduce a wholetime day crewed structure at Amesbury Fire Station to provide improved fire cover in the South East Wiltshire. The Amesbury day-crewed structure will require 12 wholetime posts at a cost of c.£600k.

5.4.4 During 2022 we have also reviewed our prevention offering to make it affordable and sustainable in the future. We have now made some changes to our prevention activities and restructured the team. The changes will allow us to continue with much of the work that we already undertake, but we have stopped youth intervention programmes that are no longer financially viable. These changes have resulted in costs savings of £500k per year from April 2023.

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 2026-27, 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

	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
Total funding	**65.991**	**67.670**	**69.171**	**70.716**
Estimated net service budget	**65.991**	**67.754**	**69.923**	**71.585**
Budget surplus(+)/deficit(-)	**0.000**	**-0.084**	**-0.752**	**-0.869**

6. Budget 2023-24 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. They are:

	2023-24	2024-25	2025-26 onwards	financial impact of 1% variation
1. Change in government funding settlement	+10.1%	+2.0%	+0.0%	£153k
2. Change in council taxbase	+1.4%	+1.0%	+1.0%	£494k
3. Core Council tax referendum threshold	+3.0%	+3.0%	+2.0%	£482k
4. Change in Band D council tax	£5	+2.99%	+1.99%	£482k
5. Pay award - Uniformed	+5.0%	+4.0%	+2.0%	£395k
6. Pay award - Corporate	+6.0%	+4.0%	+2.0%	£140k
7. Non-pay inflation*	various	various	+2%	£125k
8. 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 19 December 2022 showed a funding increase of £3.2m for 2023-24. This includes revenue support grant increasing in line with September 2022 CPI of 10.1%, a similar increase for assumed business rates income, but a reduction in Top-Up grant reflecting changes in the April 2023 national revaluation of business rates. The Final Settlement is expected to confirm this in early February 2023 and will be updated to include the impact of a £5 increase in the council tax precept. The Government will assume that all FRAs will take this option when calculating the Core Spending Power for each authority. Although the increase in funding is welcome, overall our Settlement Funding Assessment has still reduced from £19.426m (accumulated as two separate Authorities) in 2015-16 to £15.248 in

2023-24, representing a cash reduction of £4.2m or 21.5% over the period since 2015-16.

6.2.4 The settlement for 2023-24 is the fifth one-year only settlement provided by the Government. 2024-25 is likely to be a further one-year settlement and our expectation is that there would be a full Spending Review undertaken in 2024.

6.2.5 A new ‘Services’ grant was provided for in 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 was £721k, but included funding for the increase in employer national insurance (NI) costs from April 2022 related to the Government’s new plan for health and social care. With the change in Government policy announced on 22 September 2022 the NI cost element of this grant has been removed and our allocation for 2023-24 is £406k.

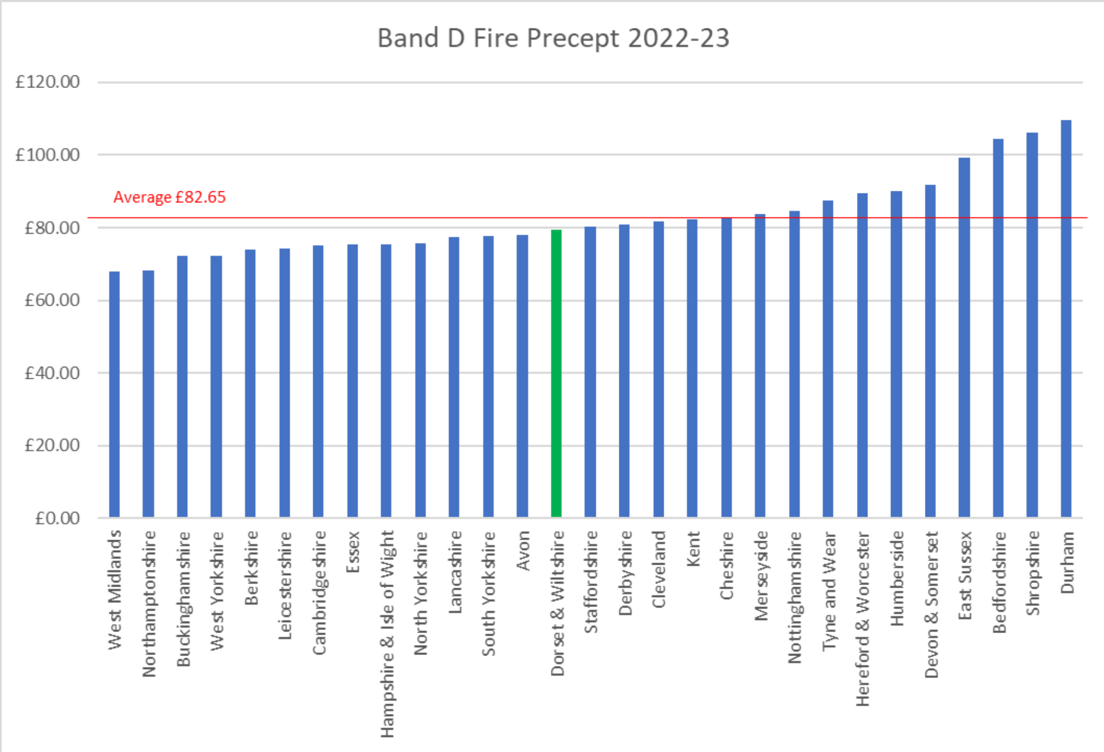
6.2.6 The Government is providing additional funding for 2023-24 only to ensure that all local authorities, including FRAs, see at least a 3% increase in their Core Spending Power before any decisions about organisational efficiencies, use of reserves or council tax levels. The national total is £136m, with this authority receiving £178k. Four other FRAs benefit from this funding as well, namely Devon & Somerset, East Sussex, Hereford & Worcester and North Yorkshire. The Settlement also continues to provide a Rural Services grant to ‘super-sparse’ areas and our share of this is £52k.

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 2022-23 fire precept figure of £79.43 compares to a national average for all standalone FRAs of £82.65 (see graph below).

Graph: Band D Fire Precept 2022-23 (all standalone Fire and Rescue Authorities)



6.2.9 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 2022-23 Spending Review bid submitted jointly by the National Fire Chiefs Council (NFCC) and Local Government Association (LGA) put forward this option.

6.2.10 There was some recognition of the funding issues in the Fire sector and this led to the inclusion of a £5 flexibility in the 2022-23 Settlement, but only for the eight lowest-charging fire and rescue authorities.

6.2.11 Further evidence was provided to Government in the build up to the 2023-24 Provisional Settlement. The National Fire Chiefs Council was able to provide additional evidence, particularly around the impact of the significant inflationary pressures being seen in the economy. Due to this work, for 2023-24 there is a £5 flexibility for all standalone FRAs.

6.2.12 The other referendum principles proposed in the 2023-24 provisional finance settlement consultation document are:

- a core council tax referendum principle for all local authorities of up to 3%.
- an adult social care (ASC) precept of 2%, for all authorities responsible for ASC services.
- a bespoke council tax referendum principle of 3% or £5, whichever is higher, for shire district councils.
- ability to add any unused parts of the 3% ASC Precept flexibility available in 2021/22.
- a referendum principle of £15 for police authorities.

- no referendum principles for mayoral combined authorities or town and parish councils.

6.2.13 it is anticipated that referendum principles will remain in operation at the 3% level for all Fire and Rescue Authorities for 2023-24 as per Finance Principle 3 above. For planning purposes in this MTFP, we are then assuming fire precept Band D council tax increases of 1.99% for 2025-26 and subsequent years, as per Principle 4.

6.2.14 A 1% change in fire precept Band D or a 1% change in taxbase equates to approximately £480k per annum.

6.2.15 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 2023-24 has increased by approximately 1.4%, compared to an increase of 1.6% for 2022-23.

6.2.16 In establishing the indicative budget for 2023-24, funding from precepts to be issued to billing Authorities is estimated, based on a fire precept of £84.43 (a £5 increase) and the taxbase increase of 1.4%, to be as follows:

Table: Estimated precepts – billing Authorities

Collecting Authority	**Taxbase 2023-24**	**Precept 2023-24 £000**
Bournemouth, Christchurch and Poole Council	144,839	12,229
Dorset Council	152,424	12,869
Swindon Borough Council	77,774	6,566
Wiltshire Council	193,143	16,307
TOTAL	**568,180**	**47,971**

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

Table: Estimated funding from precepts

	2022-23 Actual	**2023-24 Estimated**	**2024-25 Estimated**	**2025-26 Estimated**	**2026-27 Estimated**
Band D increase	+1.99%	+£5	+2.99%	+1.99%	+1.99%
Taxbase change	+1.6%	+1.4%	+1.00%	+1.00%	+1.00%
Taxbase	560,180	568,180	573,862	579,601	585,397
Fire precept	£79.43	£84.43	£86.95	£88.68	£90.44
Precept	£44.495m	£47.971m	£49.897m	£51.399m	£52.943m

6.2.18 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. 2023-24 is the final year and the amount to be charged is £211k. Additionally, there is an overall surplus of £585k related to 2022-23, resulting in a net surplus of £374k to be included in the 2023-24 budget.

6.2.19 In summary, the table below shows the total funding assumed to 2026-27 based on the finance principles and assumptions above:

Table: Estimated Total Funding

	2022-23	2023-24	2024-25	2025-26	2026-27
	Actual	Estimated	Estimated	Estimated	Estimated
	£m	£m	£m	£m	£m
Fire Precept (£m)	44.495	47.971	49.897	51.399	52.943
Council tax Collection Fund Surplus/Deficit(-) (£m)	0.341	0.374	0.000	0.000	0.000
Revenue Support Grant (RSG) (£m)	3.998	4.403	4.491	4.491	4.491
BRR and Top Up grant (£m)	10.453	10.845	11.062	11.062	11.062
Business rates Collection Fund Surplus/Deficit(-) (£m)	(0.261)	(0.288)	(0.288)	(0.288)	(0.288)
Other government grants	2.002	2.686	2.508	2.508	2.508
TOTAL	**61.048**	**65.991**	**67.670**	**69.171**	**70.716**

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. This was the assumption in setting the 2022-23 budget but as Members will be aware there has been significant pressure for increased pay awards given the levels of inflation in the economy. The local government pay award for 2022-23 was settled at a flat rate £1,925 on all pay points, equating to an average 6% increase for the Service. This has resulted in additional costs of £550k compared to our budgeted amount. The Fire pay award for 2022 has still not been settled although the offer of 5% (applying from July 2022) remains on the table. This offer would result in additional costs of £1.1m compared to our budgeted amount. Our financial projections include the cost of this final offer and the additional cost of both awards for 2022-23, above our original 2% assumption is therefore £1.65m. Our projections for 2023-24 include a 4% increase for all staff groups before returning to 2% from 2024-25 onwards. The 4% assumption for 2023-24 adds a further £1.1m to the budget requirement. Anything more than 4% is unaffordable in the context of our overall financial position. A 1% variation in the pay award is worth approximately £500k.

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.

6.4 **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 did not happen, and it will remain a separate grant again for 2023-24.

6.4.2 We are likely to see a further increase in employer contribution rates for the Firefighter Pension Schemes (FPS) as the scheme picks up the costs associated with the McCloud remedy, associated with the age discrimination judgement and other FPS scheme valuation changes. The indications are that any change in rates will not now happen until April 2025. 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 2019 triennial valuation, and a change to our employer contribution rate, our annual costs increased by an estimated £77k from April 2020. The 2022 triennial valuation has recently concluded and our employer contribution rate for the next three years, from April 2023, will remain at the current rate of 21.5%.

6.4.4 **Other inflationary commitments**

The level of general inflation in the economy as a whole has increased significantly from late 2021 and right through 2022. The annual rate of inflation published for December 2021 was running at 5.4%, rising to 10.1% by September 2022. We continue to see significant price pressures across all budget lines, revenue and capital. Inflation increases also need to be factored into 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 2023-24 is £1.4m, compared to £350k in 2022-23, although approximately £0.5m is a one-off allowance. Additional allowances have also been made for 2024-25 before returning to more normal levels for 2025-26 onwards.

6.4.5 Rateable values for all business are being updated from April 2023. For the Service we are seeing quite a change in the rateable values of our premises, mainly fire stations. Based on these new rateable values, overall, we expect business rates costs to increase by just over £500k, but transitional relief will limit the increase to £169k for 2023-24. Costs will then increase in 2024-25 and 2025-26 as the transitional relief reduces.

6.5 Investment in protection resources

6.5.1 Over the past few 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, with a further £316k provided in 2021-22 and £271k in 2022-23. These sums have supported some initial short-term investment in resources, but are all now spent. Our financial plans assume that there will be further one-off funding made available in 2023-24 and 2024-25 at the same level as in 2022-23. To support all of the new requirements around the built environment and the legislative changes being brought forward by the Government we have restructured the Protection team and provided additional permanent resources at a cost of £534k.

6.6 Firelink grant

6.6.1 The Service has received grant funding from the Home Office in previous years to support the costs of the Firelink national communications scheme. Our based budget for 2022-23 included £563k of anticipated grant income, but we were notified by the Home Office in June 2022 that they were now phasing out this grant. The grant is being reduced by one-fifth each year, with no funding from April 2026.

6.7 2023-24 budget requirement

6.7.1 Taking all of the changes into account, the net budget requirement for 2023-24 is £65.991m as summarised:

Table: Budget requirement 2023-24

	Budget 2023-24 £m
Revenue Budget	
- Employees	53.850
- Premises	4.393
- Transport	1.658
- Supplies & services	5.896
- Agency & contracted out	2.819
- Democratic representation	0.113

- Capital financing/leasing	4.313
- Income	-6.412
- Transfers to/from reserves	-0.639
Net budget requirement	**65.991**

6.8 **Medium Term forecast**

6.8.1 The table below shows updated projections of the Authority's budget requirement from 2023-24 to 2026-27 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 2023-24 to 2026-27

Revenue budget	**2023-24 £m**	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**
- Employees	53.850	54.853	55.662	56.808
- Premises	4.393	4.583	4.662	4.653
- Transport	1.658	1.570	1.487	1.509
- Supplies & services	5.896	5.946	6.228	6.072
- Contract out services	2.819	2.788	2.772	2.779
- Democratic rep	0.113	0.115	0.117	0.117
- Capital financing	4.313	4.613	5.030	5.220
- Reserve transfers	-6.412	-6.164	-5.932	-5.668
- Income	-0.639	-0.549	-0.104	0.094
Service budget requirement	**65.991**	**67.756**	**69.992**	**71.585**

6.8.2 Looking beyond 2023-24, based on our funding assumptions and forecast spending plans we have indicative funding deficits of £0.084m rising to £0.869m between 2024-25 and 2026-27 respectively:

Table: Indicative funding gaps/deficits

	2023-24 £m	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**
Total funding	**65.991**	**67.670**	**69.171**	**70.716**
Estimated net service budget	**65.991**	**67.754**	**69.993**	**71.585**
Budget surplus (+) / deficit (-)	**0.000**	**-0.084**	**-0.752**	**-0.869**

6.8.3 Pay inflation is a significant risk given that 80% of our costs are employee related. We have allowed the impact of uniformed pay awards totalling 9% across 2022-23 and 2023-24 financial years. Looking at a scenario where the combined impact is 11% has the following effect on our MTFP:

	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
Total funding	**65.991**	**67.670**	**69.171**	**70.716**
Estimated net service budget	**66.647**	**68.546**	**70.731**	**72.409**
Budget surplus(+)/deficit(-)	**-£0.656**	**-£0.876**	**-£1.560**	**-£1.693**

6.8.4 To achieve a more sustainable medium-term financial position our assessment is that there is a need for continued council tax flexibility in future years. Table 7 below illustrates the beneficial impact of a further £5 increase in the fire precept from 2024-25, which would deliver over £1.4m of additional funding:

Table: Indicative Funding Deficits, with £5 precept increase in 2024-25

	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
Total funding	**65.991**	**69.094**	**70.637**	**72.232**
Estimated net service budget	**65.991**	**67.754**	**69.923**	**71.585**
Budget surplus(+)/deficit(-)	**0.000**	**+1.340**	**+0.714**	**+0.647**

6.8.5 Alternatively, continuation of the 2.99% core referendum principle past 2024-25 would provide some additional funding, although not enough to achieve the more sustainable medium-term financial position that we are seeking. Table 8 below illustrates this scenario:

	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
Total funding	**65.991**	**69.094**	**70.637**	**72.232**
Estimated net service budget	**65.991**	**67.754**	**69.923**	**71.585**
Budget surplus(+)/deficit(-)	**0.000**	**-0.084**	**-0.248**	**-0.348**

6.8.6 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 2022-23 and requirements through to 2026-27, is shown in the table below. The revised amounts shown for 2022-23 include projects carried forward from 2021-22 and anticipated in-year changes to the programme.

7.1.2 The capital programme for 2023-24 totals £7.1m, the majority of which will require funding through prudential borrowing.

Table: Capital programme

	2022-23	2023-24	2024-25	2025-26	2026-27
	Estimate	Indicative	Indicative	Indicative	Indicative
Capital Budget	**£m**	**£m**	**£m**	**£m**	**£m**
Property/Estates	1.928	1.715	7.305	1.678	1.382
Vehicles	2.100	4.337	2.466	2.627	2.453
Equipment	0.478	0.185	1.013	0.425	1.390
ICT	1.305	0.856	1.210	1.455	0.710
TOTAL	**5.811**	**7.093**	**11.994**	**6.185**	**5.935**
Financed By					
Prudential Borrowing	2.566	5.379	10.310	3.668	4.791
Revenue Contributions/Reserves	3.245	1.714	1.684	2.517	1.143
TOTAL	**5.811**	**7.093**	**11.994**	**6.185**	**5.935**

7.1.3 The 2022-23 programme includes the outcomes of independently undertaken property conditions survey, 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. The Estates programme also includes the required investment to deliver the project to provide future-proofed operational training facilities at Devizes Training Centre and Weymouth Fire Station.

7.1.4 Vehicles are regularly reviewed and are subject to the long-term vehicle replacement policy. After some significant investment over the past few years the 2023-24 capital programme includes replacement of five large fire appliances, four water carriers, three incident command support vehicles and a number of other smaller vehicles. Over the following 5 years there is provision to replace a further twenty-two large fire appliances, four 4x4 fire appliances and a specialist off-road vehicle. The requirements for specialist and general vehicles are all reviewed through the Resourcing and Savings Programme. Each project looks at the best way of providing the required functions, and covers consideration of vehicles, equipment, technology and crewing requirements.

7.1.5 The main focus of the programme for equipment in 2023-24 is to support operational equipment requirements linked to the vehicle replacement programme. This includes supporting the specialist response reviews 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 including investment required to replace the mobilising system used in Fire Control and its partners within the NFSP.

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. 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 have allowed the Authority set aside approximately £7m to support future capital investment and reduce borrowing costs. We now plan to transfer a further £3.4m into the Capital Replacement Reserve to further support capital investment. The revenue budget also includes an annual contribution of £100k to support the financing of the capital programme.

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 2023-24.

7.2.5 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.

7.2.6 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.

7.2.7 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 £16m at 31 March 2022, and we estimate this strategy has resulted in annual budget savings in excess of £500k. 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 but has not undertaken any further long-term borrowing since. In June 2022 £3m of short-term borrowing was required for cashflow purposes. This was through a 31-day loan with Newport City Council at an interest rate of 1.07%. No further borrowing is expected before the end of the 2022-23 financial year, although a contingency sum of £2m has been allowed for.

7.2.8 The savings made in capital financing costs allow the Authority to set aside £500k each year to reduce the long-term capital financing and borrowing requirements. This is a sensible strategy to reduce the pressure on future budgets from unsustainable rises in capital financing costs.

7.2.9 The capital financing budget currently includes provision for prudential borrowing of £5.4m in respect of 2023-24 programme, with a further £18.8m to be borrowed over the following three years to 2026-27. The estimated total over the four years is therefore £24.2m, which compares to £29.8m in the previous capital strategy when you include the required training centre investment.

7.2.10 Within the Revenue Budgets for 2023-24 to 2026-27 (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. 2023-24 will include the capital financing costs of any prudential borrowing required in respect of the 2022-23 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 the Chartered Institute of Public Finance and Accountancy (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 Budget and Funding reserve.

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.

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, 2023-24, 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 around £3.4m, increasing due to cost increases. At the start of 2023-24 General Balances are expected to be just over £2.9m, which is sufficient at this stage to mitigate the risk.

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.

<u>Earmarked reserves – investment for improvement</u>

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 are able to make base budget savings we plan to release Budget and Funding 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 22 £m	Forecast spend 22-23 £m	Forecast Balance 31 Mar 23 £m	Forecast spend 23-24 to 26-27 £m	Forecast Balance 31 Mar 27 £m
Budget and Funding	**5.658**	-3.649	**2.009**	-1.850	**0.159**
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 budget pressures and future funding uncertainty caused by successive one-year funding settlements.		
Youth intervention	**0.052**	-0.052	**0.000**	0.000	**0.000**
Purpose - This reserve was used as short-term funding for two Prevention team posts.			**Risk** – N/A		
Leadership & organisational development	**0.162**	-0.054	**0.108**	-0.108	**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	**5.872**	**-3.755**	**2.117**	**-1.958**	**0.159**

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 have allowed the Authority set aside approximately a further £7m to support future capital investment and reduce borrowing costs. We now plan to transfer a further £3.4m into the Capital Replacement Reserve to further support capital investment.

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 22 £m	Forecast spend 22-23 £m	Forecast Balance 31 Mar 23 £m	Forecast spend 23-24 to 26-27 £m	Forecast Balance 31 Mar 27 £m
Capital Replacement	**7.652**	0.455	**8.107**	-6.533	**1.574**
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	**7.652**	0.455	**8.107**	-6.533	**1.574**

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 22 £m	Forecast spend 22-23 £m	Forecast Balance 31 Mar 23 £m	Forecast spend 23-24 to 26-27 £m	Forecast Balance 31 Mar 27 £m
Service control	**0.436**	-0.109	**0.327**	-0.327	**0.000**
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)	**0.618**	-0.059	**0.559**	-0.559	**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	**1.054**	-0.168	**0.886**	-0.886	**0.000**

<u>Earmarked reserves – other reserves</u>

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 22 £m	**Forecast spend 22-23 £m**	**Forecast Balance 31 Mar 23 £m**	**Forecast spend 23-24 to 26-27 £m**	**Forecast Balance 31 Mar 27 £m**
Ill-Health Retirement	**0.255**	-0.055	**0.200**	-0.050	**0.150**
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	**1.167**	-0.000	**1.167**	0.000	**1.167**
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.			**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	**0.326**	-0.085	**0.241**	-0.241	**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	**1.748**	-0.140	**1.607**	-0.291	**1.316**

<u>Unused grants reserves</u>

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 The Authority has 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 was released in 2021-22 to offset funding reductions. A further £1.2m was provided in 2021-22 and this has been used in a similar way in 2022-23.

(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 £735k 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, as well as some other one-offs cost pressures.

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 22 £m	**Forecast spend 22-23 £m**	**Forecast Balance 31 Mar 23 £m**	**Forecast spend 23-24 to 26-27 £m**	**Forecast Balance 31 Mar 27 £m**
Prevention	**0.345**	-0.112	**0.233**	-0.233	**0.000**
National resilience	**0.225**	-0.050	**0.175**	-0.175	**0.000**
Fire protection	**0.027**	-0.027	**0.000**	0.000	**0.000**
Transformation grant	**0.318**	-0.106	**0.212**	-0.212	**0.000**
Emergency Services Mobile Communication Project (ESMCP)	**0.750**	0.000	**0.750**	-0.750	**0.000**
Business rates compensation	**1.164**	-1.164	**0.000**	0.000	**0.000**
Covid-19	**0.735**	-0.524	**0.211**	-0.211	**0.000**
Other small grants	**0.521**	-0.171	**0.350**	-0.350	**0.000**
TOTAL	**4.085**	-2.154	**1.931**	-1.931	**0.000**

8.5 Summary - Projected reserve balances

Table: Summary - Projected reserve balances

	Balance 1 Apr 22 £m	Forecast spend 22-23 £m	Forecast Balance 31 Mar 23 £m	Forecast spend 23-24 to 26-27 £m	Forecast Balance 31 Mar 27 £m
General reserves	**2.884**	0.046	**2.930**	0.217	**3.147**
Earmarked reserves	**16.326**	-3.608	**12.718**	-9.669	**3.049**
Unused grants reserves	**4.085**	-2.154	**1.931**	-1.931	**0.000**
TOTAL	**23.295**	-5.716	**17.579**	-11.383	**6.196**

Appendix 1 – General reserves risk assessment

Budget	Budget Provision 2023-24 £m	Risk	Risk >8 = High 5-8 = Med <5 = Low	2023-24 £m	Commentary
Wholetime and On-call Pay	34.193	Increase in employer contribution rates for the Firefighters Pension Schemes (FPSs)	High	0.666	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 three-percentage point increase has been allowed against this risk.
Wholetime and On-call Pay	34.193	Risk of industrial action / inability to respond to emergency incidents	High	0.223	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	50.750	Under-estimate of pay awards by 1.0%	High	0.508	The revenue budget allows for pay awards of 4% in 2023-24 and 2% thereafter. 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. £508k would cover the full year effect of a 1% variation across all staffing groups.

Budget	Budget Provision 2023-24 £m	Risk	Risk >8 = High 5-8 = Med <5 = Low	2023-24 £m	Commentary
On-call Pay	9.091	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	0.455	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 £9.1m, so £455k represents around a 5% variation.
External Funding – Government	-15.248	Future reductions in Government funding are worse than planned / forecast	Medium	0.305	The Medium Term Financial Plan (MTFP) assumes that our Government funding will stay the same in cash terms each year beyond 2024-25. There is a potential for future reductions in base funding given the impact of the Covid-19 pandemic and wider economic issues since. We also receive a number of grant streams from Government that are not in base funding and therefore a risk of removal. A 2% variation would equate to roughly £305k.
External Funding - Precepts	-47.971	Collection rates for council tax and business rates are worse than forecast	Medium	0.480	Financial risk around income from council tax and business rates, which were already becoming more volatile, and presenting new funding risks for major precepting authorities, increased further as a result of the Covid-19 pandemic. The additional impact of the 'Cost of Living' crisis must also be considered. Our taxbase was impacted by the pandemic and reduced by 0.7% for 2021-22, due to increases in claims for local council tax support. There has been some recovery since then with the taxbase increasing by 1.6% in 2022-23 and 1.4% in 2023-24, but there is still a risk around future taxbase levels. A variation of 1% could result a loss of more than £480k in income, plus the likelihood of Collection Fund deficits.

Budget	Budget Provision 2023-24 £m	Risk	Risk >8 = High 5-8 = Med <5 = Low	2023-24 £m	Commentary
On-call Pay	9.091	Increased take up of pension entitlement by On-call Duty System personnel	Medium	0.110	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	0.152	Uninsured risks and / or unfavourable outcomes from claims against the Authority - including health and safety risks, procurement challenges, employment issues, etc	Low	0.150	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	0.132	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 £132k.
Non-pay	15.240	Failure to adequately provide for non-pay inflation	Low	0.152	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 2023-24 £m	Risk	Risk >8 = High 5-8 = Med <5 = Low	2023-24 £m	Commentary
Total Costs	65.991	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)	**3.431**
Budget 23-24 (£m)	**65.991**
General Balances Risk Assessment/Budget as a percentage (%)	**5.2%**