DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 4

MEETING	Shadow Dorset and Wiltshire Fire & Rescue Authority
DATE OF MEETING	12 February 2016
SUBJECT OF THE REPORT	Budget 2016/17 and Medium Term Finance Plan
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For consideration and approval
EXECUTIVE SUMMARY	This report provides the final position on the revenue and capital budget requirement for 2016/17. This follows the budget seminar held in Salisbury on 14 January 2016 and the significant amount of work undertaken in the combination business case and workstream meetings to date. The budget requirement for 2016/17 is set out on section 3 of the report. It includes provisional sums for business rates income as at the time of writing we have yet to receive final confirmation from the billing authorities. The report considers three options for council tax, all of which assume equalising the fire precept Band D for the new Authority at £67.86 from day one, 2016/17. This is the Alternative Notional Amount (ANA) level approved by the Secretary of State. The three options are: Option 1 - a fire precept Band D increase of 1.99% resulting in a precept of £69.21 providing a net budget requirement of £54.815m, using £0.255m of reserves to balance the budget; Option 2 - a fire precept Band D increase of 1.0% resulting in a precept of £68.54 providing a net budget requirement of £54.464m, using £0.606m of reserves to balance the budget; or Option 3 - except for the ANA, no further increase resulting in a fire precept band D of £67.86 providing a net budget requirement of £54.107m, using £0.963m of reserves to balance the budget. The capital programme requirements for 2016/17 total £8.750m, with the expectation that when the capital outturn position is known for 2015/16, further approved expenditure may be considered to carry forward to 2016/17.

RISK ASSESSMENT	The Authority has undertaken a significant amount of work in combining to achieve a sustainable budget position, against the backdrop of continuing government funding reductions. The level of business rates remains a concern, and the uncertainty of how the funding mechanism may develop as the responsibility for Fire moves away from the Department of Local Communities (DCLG) and across to the Home Office (HO).
COMMUNITY IMPACT ASSESSMENT	The impact assessment was considered as part of the final business case for combination.
BUDGET IMPLICATIONS	These are contained within the report.
RECOMMENDATIONS	It is recommended that the Shadow Fire Authority considers the budget and precept options for 2016/17 before considering the recommendations in the Treasurer's report. Members are also asked to consider whether they should formally accept the Governments' offer of a four year funding settlement as laid out in the finance settlement.
BACKGROUND PAPERS	2016/17 Provisional Local Government Finance Settlement, DCLG, 17 December 2015
APPENDICES	A: Summary Options Fire Precept Band D B: Medium Term Finance Plan 2016-2020
REPORT ORIGINATOR AND CONTACT	Darran Gunter, Chief Fire Officer Tel (01305) 252604

1. Introduction

1.1 This report provides the final position on the revenue and capital budget requirement for 2016/17, following the budget seminar held in Salisbury on 14 January 2016 and the significant amount of work undertaken on the combination business case and in the combination workstreams meeting to date.

1.2 There are a number of issues and financial implications presented to the Fire Authority in this report, which are based on best estimates and information available. In particular, this includes provisional sums for business rates income as at the time of writing we have yet to receive final confirmation from the billing authorities.

2. Funding Issues

2.1 Local Government Finance Settlement

2.1.1 The Provision Finance Settlement details for 2016/17 were published on 17 December 2015. The final details were expected early February, but at the time of writing they had yet to be issued. The provisional figure for the new Authority's Settlement Funding Assessment (SFA) for 2016/17 is £17.636m. This is a reduction of £1.8m or 9.3% compared to the combined total of the SFAs for 2015/16 in respect of Dorset Fire Authority and Wiltshire & Swindon Fire Authority. The SFA includes Revenue Support Grant (RSG) funding of £8.069m and a Baseline Funding Level (BFL), under the Business Rates Retention (BRR) Scheme of £9.567m.

	2015/16 £000's	2016/17 £000's	Difference £000's
Settlement Funding Assessment (SFA)	19,436	**17,636**	-1,800
made up of:			
Revenue Support Grant (RSG)	9,947	**8,069**	-1,878
Baseline Funding Level (BFL)	9,489	**9,567**	78

2.1.2 The Government, in making its assessment of the reductions, has built into its estimates of income for the new Authority, fire precept increases of 1.75% (inline with the Office of Budget Responsibility's (OBR) forecast for CPI (Consumer Price Index)) and taxbase growth based on the average annual taxbase growth between 2013/14 and 2015/16.

2.1.3 The Baseline Funding Level (BFL) is split between an assumed level of business rates retention and a top up grant payment from DCLG. The top up grant is increased each year in line with inflation. The amount of business rates retention is subject to some uncertainty, and whether the amount assessed within the SFA will be close to the amount actually received from the billing authorities. The amounts due from the billing authorities have yet to be confirmed, and early indications are that there may be significant deficits arising due to rate reliefs particularly in relation to hospitals. In addition to this, the Government has continued to cap the small business rates multiplier, and additional funding through Section 31 grant will be made available to local authorities to compensate for their loss. Section 31 grant has not been built into the budget as at this stage this is not known, but will be available to offset, if not in full, part of the expected deficit on BRR scheme.

2.1.4 The Provisional Settlement has, for the first time, included an offer to all local authorities for a four year funding settlement to 2019/20 to assist authorities to move to a more self sufficient position and provide funding certainty and stability. The terms of the “offer” were not made clear when the Provisional Settlement was announced in December 2015. In order to access the “offer” authorities will need to have efficiency plans in place but the consultation document has no details confirming the exact arrangements. Consultation on the proposals concluded on 15 January 2016 and we expect to see the Government’s response when the Final Settlement is announced in early February 2016. The consultation also states that, in practice, the final determination of the finance settlement each year cannot be made until calculations are made each year of the impact of business rate multiplies, RPI, CPI, etc, therefore there are no guarantees. Members will need to consider whether to accept the Government offer of a four year settlement and, if so, to request officers to liaise with the Government on this. The Government has also assumed it will continue to use the current methodologies for funding allocations, so for planning purposes the four year settlement indications have been used for projections in our medium tern financial plan.

2.1.5 The Provisional Settlement does not include any details of specific revenue grants (eg Firelink Grant, New Dimension Grant) for FRAs, paid as Fire Grant, but DCLG have broadly communicated that they are in line with what has previously been received, which the current budget for 2016/17 reflects.

2.2 **Fire Precept**

2.2.1 Previous years finance settlements included options where authorities who chose to freeze their council tax were awarded a council tax freeze grant equivalent to a 1% increase. The Provisional Settlement for this year does not include any option for this in 2016/17. All previous council tax freeze grants have been subsumed into the RSG calculations, and this is where the funding cuts have been made.

2.2.2 The Provisional Settlement also announced a council tax referendum threshold for 2016/17 of 2% above our ‘relevant basic amount’ for council tax purposes. Some Authorities have been given the opportunity to increase their council tax by more than 2%, to take in to account social care and have a limit of 4%, and some low spending, low precepting districts and Police and Crime Commissioners (PCCs) have been allowed increase by up to £5, as did Dorset Fire Authority several years ago. For medium term financial planning purposes, we have assumed that the 2% referendum cap will remain and be assumed to apply each year. The ‘relevant basic amount’ for the new Authority has been established by the Secretary of State at £67.86, through the approval of an Alternative Notional Amount (ANA). This was a cornerstone of the business case for combination and follows much lobbying by officers, Members and local MPs.

2.2.3 In terms of our Combination, there is a legal requirement for the Authority to harmonise precept levels within a five year period. Should the ANA not be accepted there would be significant risks:

- Reputational risk, as officers and Members have proactively campaigned and canvassed for the ANA as a means to support the business case for combination, and equalise the fire precept as early as possible.

- Further discussions would need to be undertaken with DCLG officers and possibly new officers in the Home Office (HO) to develop and agree an alternative strategy for equalisation.

- Financial risk, as the loss of base funding of approximately £0.700-£0.750m per annum as a result of not accepting the ANA, which would require further spending reductions than originally planned in the business case.

2.2.4 Total Fire Precept funding is also impacted by increases in the taxbase, ie the number of Band D equivalent households in the Dorset and Wiltshire areas increase each year. We have been notified by each billing authority of our taxbase figures for 2016/17. On average across the whole of the Dorset and Wiltshire areas our taxbase has risen by just under 2.1%. The business case for combination and the medium term financial planning assumptions assumed an average increase in taxbase of 1.1%. We have therefore benefitted by an extra 1% above that planned, which equates to additional funding of £0.370m. Taking a prudent approach, for medium term financial planning purposes, we have included estimated increase in taxbase at 1.5% for future years, aligned to forecast increases expected by the collecting authorities.

2.2.5 There are also one-off collection fund surpluses and deficits held at each of the billing authorities, which offset or add to the amount collected in year in respect council tax income. In total these amount to £863k for 2016/17, a larger than usual surplus not seen before, but these amounts are one-off windfalls and are not guaranteed to be sustainable in future years.

2.3 Funding Summary

2.3.1 The table below shows the overall funding position taking account of potential precept increases available for 2016/17 together with reported taxbase increases, anticipated grant funding and business rates retention (BRR):

	Option 1 1.99% increase	Option 2 1.00% increase	Option 3 0% increase
Taxbase	524,726	524,726	524,726
Fire Precept band D (£)	£69.21	£68.54	£67.86
Fire Precept (£m)	36.316	35.965	35.608
Collection Fund Surplus/Deficit(-)(£m)	0.863	0.863	0.863
Revenue Support Grant (RSG)(£m)	8.069	8.069	8.069
BRR and Top Up grant (£m)	9.567	9.567	9.567
Total Funding (£m)	**54.815**	**54.464**	**54.107**

3. Budget Requirement 2016/17

3.1 In determination of the budget 2016/17 there are a number of factors influencing the 2016/17 budget and the medium term financial plan, outside of the issues around precept and Government funding. These are considered below.

3.1.1 Single state pensions - previous spending reviews announced that from April 16 pension schemes that were contracted out of state earnings related pensions scheme (SERPS) would no longer be able to apply rebates to National Insurance (NI). Any benefits gained through rebates in NI are therefore removed at a base cost of approximately £0.5m.

3.1.2 Pay and increment adjustments assuming a 1% increase for corporate staff (in line with the current National Joint Council (NJC) offer), and 2% for uniformed staff.

3.1.3 Inflationary and contractual increases equating to approximately 1% on non-pay budgets.

3.1.4 The projected savings from the combination are currently forecast to be just under £6m in total, in line with the Final Business Case approved in 2015. The table below shows a breakdown of the savings.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Capital financing - one-off	0.100	0.000	0.000	0.000	0.000
2014/15 pay award savings	0.400	0.000	0.000	0.000	0.000
Functional review savings	0.608	3.025	0.085	0.000	0.000
IRMP* savings	0.000	0.000	0.750	0.750	0.000
NFCSP** savings	0.000	0.000	0.000	0.000	0.308
Total Savings	**1.108**	**3.025**	**0.835**	**0.750**	**0.308**
Cumulative Saving	**1.008**	**4.033**	**4.868**	**5.618**	**5.926**

*Integrated Risk Management Plan (IRMP)
**Networked Fire Control Services Partnership (NFCSP)

3.1.5 The NFCSP saving of £308k has not yet been factored into our medium term forecast. Whilst we expect to make this saving, it can only be delivered in conjunction with Devon and Somerset Fire and Hampshire Fire, our NFCSP partners.

3.1.6 We have identified that transitional work is required over the next few years to ensure that service provision is maintained and transition to the steady state is achieved. Much of this is associated with moving to the new organisational structure. The total costs of the transition process are forecast at £4.358m with £3.075m being incurred in 2016/17. A full breakdown is provided below.

Transitional Costs	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
- Staffing Corporate	0.895	0.523	0.000	0.000
- Staffing Uniformed	0.460	0.201	0.000	0.000
- Redundancy/Delayed Leaving/Notice Pay	1.000	0.000	0.000	0.000
- Pay Protection (3 years)	0.100	0.100	0.100	0.000
- Additional Travel (4 years)	0.100	0.100	0.100	0.100
- Leadership/Cultural Development	0.070	0.045	0.015	0.000
- ICT Harmonisation	0.450	0.000	0.000	0.000
Total Transition Costs	**3.075**	**0.968**	**0.215**	**0.100**

3.1.7 Taking all the changes into account, the estimated Service Budget of £55.070m for 2016/17 is as follows:

	Budget 2016/17 £m
Base Budget	53.917
- Single State Pension	0.504
- Pay Awards and Increments	0.355
- Other Inflation Costs and Contractual Commitments	0.196
- Functional Review Savings	-3.025
- Capital Financing	-0.210
- Transitional Costs	3.075
- Other Changes	0.258
Estimated Service Budget	**55.070**

3.1.8 Officers have developed three options for the fire precept Band D all of which assume equalisation at the ANA level of £67.86. These options are: option 1 an increase of 1.99% (£1.35 per year), option 2 an increase of 1% (£0.68 per year) and option 3 no increase above ANA. Irrespective, there is a requirement to use reserves to balance the budget of £0.255m, £0.606m and £0.963m for options 1, 2 and 3 respectively. This breakdown is outlined in the table below.

	Option 1 2016/17 1.99% increase	Option 2 2016/17 1.00% increase	Option 3 2016/17 0% increase
Taxbase	524,726	524,726	524,726
Fire Precept band D (£)	£69.21	£68.54	£67.86
Fire Precept Income (£m)	36.316	35.965	35.608
Collection fund surplus/deficit(-)(£m)	0.863	0.863	0.863
Revenue Support Grant (RSG)(£m)	8.069	8.069	8.069
BRR and Top Up grant (£m)	9.567	9.567	9.567
Total Revenue Funding (£m)	**54.815**	**54.464**	**54.107**
Estimated Service Budget 2016/17	**55.070**	**55.070**	**55.070**
Budget Surplus/deficit(-)	**-0.255**	**-0.606**	**-0.963**
Net Budget Requirement	**54.815**	**54.464**	**54.107**
Annual Increase in Fire Precept Band D above ANA (£)	**£ 1.35**	**£0.68**	**£0.00**
Weekly Increase in Fire Precept Band D above ANA (pence)	**2.6p**	**1.3p**	**0p**

3.1.9 To address a number of emerging, new and as yet unknown funding risks, my recommendation is option 1. This is in line with assumptions made by central Government and aligns to assumptions we made and consulted on in the business case.

4. Medium Term Finance Plan

4.1 The Authority produces or updates the Medium Term Finance Plan (MTFP) on an annual basis and the first for the new Authority is attached at Appendix B.

4.2 The table below shows updated projections of the new Authority's budget requirement from 2016/17 to 2019/20. The projections for 2017/18 onwards are based on the following assumptions:

- Funding settlement 2016/17 in accordance with the Finance Settlement.
- Further reductions of 9.3%, 12.3% 6.0% and 2.6% in our settlement funding assessment over the next four years 2016/17 to 2019/20.
- Equalisation of fire precept Band D in 2016/17 in line with the ANA document that the Government have produced.
- A 1.99% increase in fire precept band D each year.
- A 1.5% increase (on average) in taxbase each year.
- Provision for 2% pay awards each year, where relevant.
- A 1% non-pay inflation, plus contractual commitments.
- Introduction of Apprenticeship Levy 2017/18, equivalent to 3% of paybill.
- Service functional reviews undertaken and implemented in 2016/17.

- Transitional costs funding staffing, redundancies, delayed notice period, pay protection, additional travel, leaderships/cultural development and departmental ICT harmonisation

4.3 The table below shows the indicative funding available based on the assumptions above, over the period 2016/17 to 2019/20, with an increase in fire precept band D of just under 2% each year.

Option 1: 1.99% increase each year	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Taxbase	524,726	532,597	540,586	548,695
Fire Precept band D (£)	£69.21	£70.59	£71.99	£73.42
Fire Precept (£m)	36.316	37.596	38.917	40.285
Collection fund surplus/deficit(-)(£m)	0.863	0.000	0.000	0.000
Revenue Support Grant (RSG)(£m)	8.069	5.704	4.493	3.795
BRR and Top Up grant (£m)	9.567	9.755	10.043	10.364
Total Funding (£m)	**54.815**	**53.055**	**53.453**	**54.444**

4.4 The table below shows the indicative net budget requirements based on the assumptions above.

Option 1: 1.99% increase each year	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Original Budget	53.897	55.070	54.302	54.089
Plus One-off items	0.020	-3.070	-0.971	-0.217
Base Budget	**53.917**	**52.000**	**53.331**	**53.872**
- Single State Pension	*0.504*	*0.000*	*0.000*	*0.000*
- Pay Awards and Increments	*0.355*	*0.773*	*0.829*	*0.820*
- Other Inflation Costs and Contractual Commitments	*0.196*	*0.198*	*0.198*	*0.198*
- Functional Review Savings	*-3.025*	*-0.835*	*-0.750*	*0.000*
- RDS Investment	*0.000*	*0.500*	*0.000*	*0.000*
- Capital Financing	*-0.210*	*0.528*	*0.266*	*0.454*
- Apprenticeship Levy	*0.000*	*0.150*	*0.000*	*0.000*
- Transitional Costs	*3.075*	*0.968*	*0.215*	*0.100*
- Other Changes	*0.258*	*0.020*	*0.000*	*-0.069*
Estimated Service Budget	**55.070**	**54.302**	**54.089**	**55.375**

Net Budget Requirement 2016/17	**55.070**	**54.302**	**54.089**	**55.375**
Total Funding	54.815	53.055	53.453	54.444
Budget Gap	**-0.255**	**-1.247**	**-0.636**	**-0.931**

4.5 As can be seen from the table above and assuming a year on year 1.99% increase in fire precept, there is still a significant budget gap. In order to address the longer terms base budget deficit there will be a need for further transformation. In the medium term we will need to consider the use of our reserves and available resources to provide a sustainable and legal budget position. Expected general balances have been risk assessed and are currently above the £2.5m risk assessed requirement. The table below shows the general balances available to support service transformation (see paras 6.1.1 and 6.2.1 below).

	General Reserves & Balances £m	Transformation Reserves £m	Total £m
As at 1 April 2015	*4.449*	*2.867*	***7.316***
Expected change in 2015/16	*1.192*	*-0.309*	***0.883***
Forecast as at 31 March 2016	***5.641***	***2.558***	***8.199***
Less Risk Assessed Requirement	*-2.500*		***-2.500***
Excess General Reserves & Balances	***3.141***	***2.558***	***5.699***

4.6 With an increase of just under 2% for 2016/17 and the next three years, then our forecast budget gap can be met from general balances that we have available. This reduces the level of these balances to just over £2.6m by March 2020.

Option 1: 1.99% fire precept increase	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Net Spending Requirement 2016/17	55.070	54.302	54.089	55.375
Total Funding (1.99% inc in Band D)	54.815	53.056	53.453	54.445
Budget Deficit/Gap	**-0.255**	**-1.246**	**-0.636**	**-0.930**
Balance of reserves	**5.444**	**4.198**	**3,562**	**2.632**

4.7 This would allow some flexibility and provide opportunities for further transformation and provide the ability to address some issues and concerns that could alleviate pressures on the revenue budget:

- There is a requirement to develop and deliver savings through the IRMP, including a fire cover review (invest to save).
- On going capital investment of approximately £5m per annum, for which there is very little possibility of grant funding to support, therefore prudential borrowing will be required.
- The new Authority has a property maintenance backlog to address of approximately £3.75m.
- The impact of the replacement national radios and communication system Emergency Services Mobile Communications Programme (ESMCP) is evolving and as yet it is not clear if there will be any additional costs to the Service.
- The Home Office will be taking over responsibility for the Fire Service and it is not clear how this will affect the funding mechanism for fire, in particular its impact on Business Rates funding.

- We have an ageing work, predominantly retained duty system (RDS) based staffing model through the rurality of Dorset and Wiltshire and vacancy management is a significant issue for the Service.
- Sustainability of the RDS (on-call) is becoming more significant as the number of calls reduces. A small revenue provision has been included £0.5m to assist a potential change to a more appropriate remuneration scheme.
- The sustainability of our youth intervention initiatives, including salamander, troubled families, SPARC, cadets and Prince's Trust, is at risk due to partnership funding. A contingency provision of £120k per year over the next four years would ease these risks.
- The Authority has indicated that it wishes to support further apprentices. The direct and associated costs of four apprentices, is approximately £80k per year.

4.8 The other two options for the level of fire precept would require all reserves and contingencies to be used and in any case would not provide a sustainable position for four years or any scope to address the issues outlined above. For option 2 - a 1% annual increase in fire precept each year, the net budget gap and the impact on reserves would be as follows:

Option 2: 1.00% fire precept increase	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Net Spending Requirement 2016/17	55.070	54.302	54.089	55.375
Total Funding (1% inc in Band D)	54.464	52.331	52.334	52.908
Budget Deficit/Gap	**-0.606**	**-1.971**	**-1.755**	**-2.467**
Balance of reserves	**5.093**	**3.122**	**1.367**	**-1.100**

4.9 The impact on available reserves and resources for transformation means that we would have sufficient resources to set balance the budget for 2018/19, but thereafter available resources to support transformation would be totally depleted. There would be limited capacity to address the risk and opportunities raised in paragraph 4.7 above.

4.10 For option 3 (no increase above ANA), the position is much worse where the net budget gap and the impact on reserves would be as follows:

Option 3: no increase (except to ANA level)	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Net Spending Requirement 2016/17	55.070	54.302	54.089	55.375
Total Funding (no increase except ANA)	54.107	51.601	51.220	51.393
Budget Deficit/Gap	**-0.963**	**-2.701**	**-2.869**	**-3.982**
Balance of reserves	**4.736**	**2.035**	**-0.834**	**-4.816**

4.11 The impact on available reserves and resources for transformation means that we would have sufficient resources to get balance the budget for 2017/18, but thereafter available resources for transformation would be totally exhausted and effectively we are unsustainable without significant reductions in spending. There would be no capacity to address the risk and opportunities raised in paragraphs 4.7 above.

4.12 What all three options mean over the medium term, and the impact of the forecast surplus or deficit on our overall financial position, is shown in the summary Appendix A.

4.13 It is my recommendation therefore that option 1 be considered as the only sustainable option, ie approve an increase in the fire precept Band D of 1.99% for 2016/17 providing a net budget requirement of £54.815m, using £0.255m of reserves to balance the budget.

5. Capital Programme

5.1 **Capital Expenditure Summary**

5.1.1 Draft capital expenditure requirements for 2016/17 to 2019/20 are shown in the table below. The capital programme for 2016/17 totals £8.750m which includes safety centre slippage into 2016/17.

Capital Programme	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Property/Estates Station Improvements	4.119	0.752	0.687	0.700
Vehicles	3.611	3.155	3.086	3.831
Equipment	0.164	0.213	0.193	0.052
IT and Communications	0.856	0.440	0.250	0.250
Total	**8.750**	**4.560**	**4.216**	**4.833**
Financed by:				
Prudential Borrowing	5.023	4.560	4.216	4.833
Capital Receipts	0.000	0.000	0.000	0.000
Revenue Contributions/Reserves	0.000	0.000	0.000	0.000
Specific Grants	3.727	0.000	0.000	0.000
Total	**8.750**	**4.560**	**4.216**	**4.833**

5.2 **Property/ Estates - Station Improvements**

5.2.1 The 2016/17 programme brings together the updated programmes from both Dorset and Wiltshire as part of their existing capital programmes including the current major refurbishment programmes and minor capital works programmes assessed in terms of risk and priority (need).

5.2.2 A full property evaluation and fit for purpose review is currently being undertaken of the combined estate of the DFA and W&SFA, the outcome of which will provide the required details to inform the future capital budgets beyond 2016/17.

5.3 Vehicles

5.3.1 Vehicles are regularly reviewed and are subject to the long-term vehicle replacement policy. Following decisions to defer the replacement and purchase of large appliances in 2015/16, in particular the aeriel ladder platforms until a wider review has been completed of the IRMP, the current replacement plan for 2016/17 includes two aeriel ladder platforms and five large fire appliances, together with a variety of officer cars and operational vehicles. Similarly to the property estates review, the programme for 2016/17 is based on immediate requirements and future years may changes subject to the reviews.

5.4 Equipment

5.4.1 The programme for equipment is made up of Operational Equipment and Personal Protective Equipment (PPE) requirements for the next few years, alongside additional training equipment and equipment for the reserve vehicles.

5.5 Information Technology and Communications

5.5.1 Ongoing ICT infrastructure requirements to include hardware replacements, radios, uninterruptable power supply (UPS), mobile data terminals, mobile communications and Incident Assessment Centre equipment.

5.6 Capital Financing

5.6.1 Capital expenditure is generally funded by a number of sources, namely capital receipts, direct revenue contributions, specific capital grants and under the capital accounting regime in respect of local authority capital accounting, through as system of prudential borrowing.

5.6.2 Should the Service dispose of any assets and generate capital receipts, the receipts could be used to fund the capital programme. At present no capital receipts have been identified to fund the programme.

5.6.3 The new Service will hold revenue resources, by way of reserves associated with capital expenditure) which it may choose to fund the capital programme. These are anticipated to be approximately £3.775m as at 1 April 2016 (see table at paragraph 6.2.3 above). The capital programmes above assumes no use of revenue resources/reserves.

5.6.4 The system of capital grants within the Fire Service no longer exists, and has been replaced with a capital and revenue grant bidding system open to all FRSs. The combination bid in 2015/16 was successful in receiving £5.54m grant from DCLG, and therefore we anticipate that no capital grants will be available for 2016/17.

5.6.5 Any shortfall of funding available to meet the capital programme is made up from prudential borrowing, i.e. should the Authority determine it is prudent and affordable, it borrows to fund its capital programme.

5.6.6 Prudential borrowing is undertaken usually at the end of the financial year in which the expenditure is incurred, the revenue costs of which are approximately £0.075m per £1m borrowed (based on interest rate of 3.5% and debt repayment of 4% over a 25 year period). The budget for future years beyond 2016/17, include provision for prudential borrowing as per the table in paragraph 5.1.1, i.e. £5m in 2017/18 (in respect of 2016/17 programme), £4.5m in 2018/19 (in respect of the 2017/18 programme), and £4.2m in 2019/20 (in respect of the 2018/19 programme). Should the Authority choose to use its reserves set aside, ie £3.775m to fund the 2016/17 programme it would not be required to find an additional £0.280m in the revenue budget to fund part of the 2016/17 capital spend.

6. Reserves and Balances

6.1 General Balances and Reserves

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

6.1.2 Balances at the start of 2015/16 amount to £4.449m, with an estimated balance at 31 March 2016 of £5.641 allowing for the latest savings accruing at projected outturn 2015/16. The latest risk assessment of general balances indicates that the current position for the new authority of £2.5m is prudent and if maintained, will approximate to 5% of the Authority's net budget requirement. The current position of excess general balances (above the £2.5m) available to support business transformation in 2016/17 and beyond is expected to be £5.641m less £2.5m, amounting to £3.141m as at 1 April 2016.

General Balances and Reserves	**2016/17 £m**
Expected total General Reserves (as at 1 April)	4.449
Less Expected Outturn 2015/16	1.192
Expected General Balances and Reserves	**5.641**

Made up of:

General Balances - Risk Assessed	2.500
Excess General Balances	3.141
Expected General Balances and Reserves	**5.641**

6.2 Other Earmarked Reserves

6.2.1 In addition to this excess general balances which are available for transformation are earmarked business transformation reserves previously set aside amounting to £2.867m. In 2015/16 is anticipated that we will use £0.309m, leaving approximately £2.558m available to support transformation and other risks (as per paragraph 4.7) in 2016/17 and beyond.

6.2.2 The combined Authority has a number of other reserves earmarked for specific purposes.

6.2.3 The Authority manages its earmarked reserves to help deal with specific risks that cannot be managed within the annual revenue budget to help provide funds for service transformation, to reduce external debt and for other specific reasons. The following table identifies the extent of expected earmarked reserves at 31 March 2016.

Estimated Earmarked Reserves	TOTAL 1 Apr 15 £m	Expected Use 2015/16 £m	TOTAL 31 Mar 16 £m
Ill Health & Injury Pensions	0.895	-0.076	0.819
Part-time Workers (RDS Pensions)	1.000	0.000	1.000
Business Rates Funding	0.100	0.000	0.100
Insurance	0.967	0.000	0.967
Business Transformation	2.867	-0.309	2.558
Capital	4.175	-0.400	3.775
Leadership Development	0.280	0.000	0.280
RDS	0.092	0.110	0.202
Service Control Centre	0.916	-0.379	0.537
Safety Centre	0.500	0.500	1.000
Other	0.508	-0.083	0.425
Total Earmarked Reserves	**12.300**	**-0.637**	**11.663**

6.2.4 The above table shows a number of set aside reserves expected at 31 March 2016. Further detail regarding the more significant reserves is provided in the attached MTFP, Appendix B.

7. Conclusions

7.1 Following the budget seminar on 14 January and the significant amount of work carried out in the workstreams, this report outlines the indicative budget proposals for 2016/17. The report highlights that over the next four years, based on our assumptions, in order to balance the budget we will need to use our set aside reserves. This is clearly shown in the attached Appendix A.

7.2 The new spending requirement has been established at £55.070m for 2016/17. Using set aside reserves to balance the budget of £0.255m, a net budget requirement is established at £54.815. In order to meet the budget requirement and assuming government funding reductions as established through the finance settlement, precept funding through Option 1, i.e. increase relevant basic amount, by £1.35 to £69.21 (an increase of 2.6p per week per band D household) for 2016/17 is the preferred and recommended option.

7.3 Capital programme requirements for 2016/17 equate to a £8.750m, which will be funded through prudential borrowing (£5.023m) and transformation grant for the safety centre programme slipped into 2016/17 from 2015/16.

DARRAN GUNTER
Chief Fire Officer

February 2016